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A VIEW

OF THE

BANKING QUESTION,

RESULTING FROM

PRACTICE AND EXPERIENCE.

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ADVERTISEMENT.

Lord Althorp, as Chancellor of the Exchequer, gave notice that he would, on the 8th of May, move for the appointment of a Select Committee of the House of Commons, to inquire into the subject of the Bank-Charter, and of the Banking Affairs of the country generally. This appeared, therefore, to the writer of the following pages, the fit occasion to attempt to place that part of the subject relating to the country-practice of Banking, and its influences on productive industry—on agricultural, mining, manufacturing, and commercial, operations,—in a just and satisfactory point of view.

Error has, hitherto, had the ascendancy,—the subject is difficult, because the grounds upon which an investigation must proceed are not very easily explored; and the materials to be dealt with, present very different appearances to the superficial, from those which they present to the patient and searching enquirer;—but, in a matter of such great, and, indeed, vital, importance to the industrious and enterprising portion of the community, to shrink from the discharge of duty, on account of the stubbornness of prejudice, and the difficulty of removing it, would be supine and pusillanimous.

The recent measures concerning the subject of Banking emanated from the most fallacious assumptions, and have, therefore, been injurious in their operation, because no investigation of the case was previously assented to, and the Government proceeded in its course of policy under the influence of prepossession and ignorance. It is im-

possible to imagine that the enlightened members to be appointed to serve on a Parliamentary Committee would enter upon their labours, with prepossessions and prejudices immovably fixed in their minds. To them, therefore, especially, and to the members of the two Houses of Legislature generally, the following treatise is, with confidence in their impartiality, most respectfully submitted.

May 19*th*, 1832.

A VIEW

OF THE

BANKING QUESTION,

&c. &c.

INTRODUCTION.

It is alleged by persons of great political influence, that defects very injurious to the community exist in the present system of Banking in England, and manifold evils in its practice; and that the Legislature is imperatively called upon to remove those defects, by sanctioning some new method of Banking, and introducing a better practice. Few subjects are of greater importance than these, because the existing practice of Banking is now as intimately connected with internal industry, as turnpike-roads are connected with market-towns. If we destroy either Banks or roads, we shall, in the one case, by throwing

obstacles in the way of a proper distribution of capital, greatly increase the difficulty of raising sufficient produce for the wants of the people ; and, in the other case, we shall have greater difficulties in carrying our produce to markets and places for consumption. Without contemplating an entire destruction of the practice, we may predicate that evils would result from any deep injury to the existing system of Banking, corresponding to the extent and nature of that injury.

These, therefore, are not matters of light concern. It requires a thorough knowledge of the facts of the case, a perfect acquaintance with local and particular circumstances in the practice and operation of Banking, a clear view of its general influences and consequences, and, above all, an absence of all prepossessions in favour of some particular theory, to facilitate the formation of accurate conclusions. Almost all who have been engaged on these important subjects, and who have endeavoured to influence public opinion and direct the course of public measures, have been men of superficial knowledge and general views, who, ingenious, confident, and plausible, have succeeded in making erroneous impressions upon

the minds of many distinguished and honourable men. The object of the following observations is to remove such impressions, and, by the guidance of sound principles, and the evidence of practice and experience, to place the Question upon a just basis before the public. If that object should be accomplished, its accomplishment must, at the least, suggest to all legislators, the propriety of withholding a judgement on the relative merit of different Banking Systems, until a full and impartial public investigation have brought out the facts of the case, and placed it on proper grounds for Parliamentary Adjudication.

The subject, as we propose to treat it, naturally divides itself into four parts :—

1st. The Bank of England—its peculiar Privileges and Functions.

2d. The alleged defects of the present System of Banking in England.

3d. The Branch-Bank System.

4th. The Scotch System of Banking, and its alleged superior adaptability to the People of England.

SECTION I.

THE BANK OF ENGLAND, ETC.

On the general bearing of the questions connected with this division of the subject, it will not be necessary to dwell at any length, on the present occasion. The influence which the Bank of England exercises on the public policy of the country, its power over the measures of the Government, the use of the extraordinary and dangerous function of raising or depressing prices, and thereby dispensing prosperity or adversity to all who are engaged in the pursuits of industry, are matters which must now undergo the fullest and most deliberate examination by a Parliamentary Committee; otherwise a formal enquiry would be a deception, delusive to the public, and dishonourable to the Legislature and the Government. The leading object of the following observations is, to remove certain misconceptions relating to the character and conduct of the Bank of England, and to the character and conduct of Private Bankers, when considered with regard to their respective influences on the productive industry of the country

—on agriculture, manufactures, and commerce; —and not, to discuss the nature and influence of the Bank of England, regarded as a great political engine of the State.

There are, however, some points of grave consideration, connected with the general bearing of the Bank-Question, which, notwithstanding the more especial object to which these remarks are intended to be directed, we consider it to be our duty to bring into immediate view, before we proceed to our main purpose. A brief advertence to these appears to be necessary, preliminary to a clear apprehension of our particular subject, and to the producing of that conviction on the minds of our readers which it is our design to establish.

In the early stages of the progress of the Bank towards its present magnitude and importance, it was a matter of light concern to the public, whether or not it should exercise the three very important and responsible functions of Bankers to the Government, Creators of Currency, and Bankers to the Merchants and Traders of London. These functions—the present operation of which appears to us to be, in principle, vicious and bad, and, in practice, at times, most injurious to the prosperity, and dangerous to the best interests, of the community,—might be exercised with advantage to the people, while the transactions of the Bank were confined to the Metropolis, and the state of pro-

ductive industry was less dependent on the alternations of credit. Men engaged in bringing forth and exchanging the products of industry, at the time when Liverpool began to emerge from a little fishing-town, into an emporium of commerce,—when Manchester was a village containing houses and cottages inhabited by a few hand-spinners and hand-loom weavers, — when the marshes were undrained, and the wolds and heaths uncultivated,—when our mineral treasures were almost unexplored, — when national debts were small, and the sale of the credit of Kings and States was confined to their respective subjects,—men engaged in productive industry would, in such times, we repeat, have very little concern with the alternations of general credit. To the industrious, the effects produced on the affairs of the Bank of England, by the vicissitudes of political events, and the convulsions of States, were then but of little moment. But when such changes had taken place in every department of human industry and traffic, as required a thousand times more currency, of one kind or other, to pass, in every year, from hand to hand, among the inhabitants of these Islands, and when the prosperity of the country was measured by the amount, and the degree of activity, of the circulating medium, the influence of political vicissitudes and convulsions upon the state of the currency became of the greatest

moment to the people. When these causes of derangement in general credit, and particularly in credit-currency, came into extended operation, and began to exercise a constant, though varying, influence upon the affairs of National Banks, it became the part of wisdom, to preserve the pursuits of productive industry and commerce, as much as possible, from their influence and operation.

An attentive consideration of the circumstances out of which the paper circulation of the Bank arose and became extended, would render manifest the impolicy and danger of the measures of the Government, for enlarging the functions, and extending the application of the powers, of that corporation. An attempt has, for the first time in the history of the Bank, been made, to add to its functions of Bankers and Agents to the Government, and Creators of Currency, that of Bankers to the producers of national wealth ; and that that attempt must, if successful, be attended with great hazard to the prosperity of the country, be embarrassing to the independence and unfettered action of the Executive Government, and, ultimately, prove, in an especial manner, detrimental to those producers, are points that might be established by a full and impartial investigation. A mere reference to the circumstances which caused, or accompanied, the rise and growth of the Bank of England, would

indicate the soundness and validity of this conclusion, without the confirmation of experience. The circulation of its credit forms the basis of the power of the Bank of England: and what, let us ask, was the origin of the Promissory Notes of the Bank of England? Loans to the Government, and the payment of the debts, and the interest on the debts, of the Government, to the creditors of the Government. What is yet the fundamental source of their continuous extended issue? The payment of the accruing interest on the permanent debt of the Government, and payment for the sale and transfer of portions of that debt. All other sources of such issues by the Bank, beyond these and the payment of the interest or dividends on its own Stock, of those of the East-India Company, and other public bodies, are small and unimportant. The issues of the Bank to the Merchants, for bills discounted, have always been insignificantly small, except during the period when the Bank-Restriction Act was in full operation; and they can never be, permanently, otherwise than small, so long as the Bank shall be compelled to pay its debts in gold, and the annual payments for the Government and the Public Bodies remain without any great diminution.

Such being the origin of the paper-money circulation of the Bank, and such the means of uphold-

ing and extending it, it is obvious that it could have little immediate connexion with the productive powers of the country. The issues of the Bank were not drawn forth to aid new enterprizes of genius in the pursuits of industry. The objects upon which human labour could be employed were extended and multiplied, in infinite number and variety, without any direct stimulation or assistance from the Bank of England. Commerce, indeed, might receive support from it, in temporary loans advanced for the discount of bills; but these were made to the brokers and transmitters of productions, and not to the producers,—to the merchants and the interchangers of commodities, and not to the farmers, graziers, miners, and manufacturers, of the kingdom;—and the support thus rendered was limited to one great centre of exchange and mart of commerce. In this remarkably contracted range of its operations, the Bank of England exercised hardly any direct influence in raising up those important interests connected with the agriculture, the mines, the manufactures, and the commerce, of the country, which form the source of its wealth, and the basis of its greatness. For more than a century and a quarter after its establishment, the Bank was almost purely an engine of the state, appointed to perform a part of the functions of the King's Exchequer and the King's Mint. It

received the produce of the taxes, and paid the creditors of the Government; it created a currency which, in practical efficacy and authority, is equal to the coin of the realm: and these functions it performed, in concurrence with the policy of the King's Executive, and not to sustain and invigorate the expanding energies of production. Having no immediate connexion with the application of capital to the sources of production, and acting in general conformity with the views of His Majesty's Government almost as an organ of the Executive, the Bank ought to be regarded as being, essentially, like the Royal Mint—a convenient instrument for exercising the King's Prerogative,—and not as an instrument of commerce.

When, thirty-five years since, the currency of the kingdom was found to be too limited for the expenses of the war, the King, by order of his Council, restricted the Bank from paying its notes in the legal money of the country; and he gave to the promissory notes of the Bank, which were issued instead of gold, all the practical authority of the coin of the realm. The standard of value was, in consequence, insidiously depreciated, and the expenses of the war were thereby readily discharged: and then, after the war had terminated, the King's Minister caused a law to be passed, which added nearly one half to the value

of the currency; and, in this manner, by raising it from its depreciated condition, there was given to every servant of the Government, and every creditor of the state, an addition of forty pounds to every claim of one hundred pounds. It is impossible that the great prerogative of coining money should ever be exercised by the most despotic Monarch, with such terrific energy, or be productive of such disastrous consequences, as was this function or prerogative of issuing the practical money of the country, by the Bank of England. The effects of lowering the value of the currency at one period, and raising it at another, were of precisely the same kind as are produced by the arbitrary edicts of Potentates who act from the pure impulse of their will, in changing the value of their coins; but they were incalculably more extensive in degree.

Seeing, therefore, that the Bank was made the agent for lowering the value of money, when the the exigences of the Government required it; and, subsequently, after many years had elapsed, of raising the value of money, to the great benefit of the creditors and servants of the Government, and the deep and lasting injury of the payers of taxes; it is impossible fairly to regard the Bank as any thing but an organ of state—a part of the Executive Government: and it will be hereafter seen how entirely incompatible this, its character, is, with

the regular and just performance of those duties towards the industrious, which the Government sought to impose upon it by the establishment of Branch-Banks in eleven districts of the country. As creators of the paper-currency, the Bank ought to be responsible to the Government, whose measures are freely canvassed and examined in Parliament. Yet we have witnessed Bank-Directors asserting in the House of Commons, that, although the returns might be furnished by the Bank as a matter of courtesy, the Parliament had no more right to demand an account of the issues of Bank-Notes, than they had to demand a return of the outstanding Bills of a private trader; because the Bank of England was a corporation of associated merchants, and the Directors were responsible only to the proprietors of its stock. It is impossible that that dangerous prerogative, or power, of altering the value of money, should be exercised in a manner more perfectly uncontrouled and irresponsible, by the Sultan, than it was by the Bank of England for upwards of twenty years. It was the guise of the humble, but independent, character of merchants, that enabled the Government to use the Directors of that establishment for just the same ends as despotic princes use the functionaries of their respective Mints. The basis of all the measures connected with the paper-cur-

rency issued by the Bank, was, for upwards of thirty years, purely and almost exclusively, subserviency to the policy of the Government; and none of those changes resulted from a desire to strengthen and improve the energies of productive industry. It is altogether unquestionable, that the Bank was, essentially, an engine of the state, from its first formation, to the year 1826,—a period of one hundred and thirty years; and it had, during that time, little more connexion with the productive interests of the country, than His Majesty's Mint. Two hundred years since, the Royal Mint was used as a Bank by the Merchants, and they deposited in it their bills and their treasure: in later times, the Government has used the Bank as a Mint, and compelled it to create the practical money of the kingdom.

In all discussions and investigations relating to the subject, it is of the utmost importance to present this view of the functions and operations of the Bank: first, because the uniform conduct of that establishment shews it to be the clear and proper view, and such as ought to have the greatest weight with all Statesmen when they are meditating changes in the Banking systems and Banking operations of the country; and, secondly, because it is that view which appears to have been altogether absent from the minds of the First Lord of the Treasury and the Chancellor of the

Exchequer, when they recommended, and, virtually, enforced, the last signal change in the Banking affairs of the country. From their communication to the Bank, enclosed with a letter, dated Fife-House, the 13th of January, 1826, which they describe as "a paper containing our views of the present state of the Banking system of this country, with our suggestions thereupon," it is manifest that the Noble Lords were wholly unacquainted with the operations and relative importance of the Banking systems of the kingdom. On reference to the terms of that communication, it would appear, by the 10th proposition, that, six years ago, the Lords of the Treasury imagined that the Bank of England had, up to within thirty or forty years of that period, been the principal, and almost the sole and exclusive, instrument of the Banking transactions of the country. Indeed, all the subjoined propositions, from the 10th to the 16th inclusive, which lay the basis of the change then recommended and enforced, proceed upon an assumption of the Bank of England being the principal instrument of all the Banking transactions of the country; and, also, upon the assumption of the Country-Banks being altogether inadequate to the due performance of the Banking business which the increase of manufactures, trade, and commerce, had thrown upon them. Those propositions are not very clearly expressed, but

their import is precisely such as we describe; for they say—

" 10. We believe that much of the prosperity of the country, for the last century, is to be ascribed to the general wisdom, justice, and fairness of the dealings of the Bank of England: and we further think, that during a great part of that time, it may have been in itself, and by itself, fully equal to all the important duties and operations confided to it. But the progress of the country, during the last thirty or forty years, in every branch of industry, in agriculture, manufactures, commerce, and navigation, has been so rapid and extensive, as to make it no reflection on the Bank of England to say, that the instrument, which by itself was fully adequate to former transactions, is no longer sufficient, without new aids, to meet the demands of the present times.

" 11. We have, to a considerable degree, the proof of this position in the very establishment of so many country banks.

" 12. Within the memory of many living, and even of some of those now engaged in public affairs, there were no country banks, except in a few of the great commercial towns.

" 13. The money transactions of the country were carried on by supplies of coin and Bank-Notes from London.

" 14. The extent of the business of the country,

and the improvement made from time to time, in the mode of conducting our increased commercial transactions, founded on pecuniary credit, rendered such a system no longer adequate, and country banks must have arisen, as, in fact, they did arise, from the increased wealth and new wants of the country.

" 15. The matter of regret is, not that country banks have been suffered to exist, but that they have been suffered so long to exist without controul or limitation, or without the adoption of provisions calculated to counteract the evils resulting from their improvidence or excess.

" 16. It would be vain to suppose that we could now, by any act of the legislature, extinguish the existing country banks, even if it were desirable; but it may be within our power, gradually at least, to establish a sound system of banking throughout the country; and if such a system can be formed, there can be little doubt that it would ultimately extinguish and absorb all that is objectionable and dangerous in the present banking establishments."

The terms " in itself and by itself," which appear in the first and last sentences of the first of the foregoing propositions, seem, with the context, to imply that the Bank of England was an instrument fully adequate to the whole of the pecuniary transactions of the country, until within a very recent period. Now, it may, with safety, be affirmed, that, at no time since the mining and manufac-

turing productions of the country amounted to one tenth part of their present annual quantity, has any trader or manufacturer resorted to London, for "supplies of coin and Bank-notes," in the important manufacturing and mining districts of Norfolk, Yorkshire, Durham, Northumberland, Cumberland, Westmoreland, Cheshire, Staffordshire, Derbyshire, Nottinghamshire, Leicestershire, Warwickshire, Shropshire, Worcestershire, Herefordshire, Monmouthshire, Gloucestershire, Wiltshire, Dorsetshire, Somersetshire, Devonshire, Cornwall, and North and South Wales. These comprise every county in England, in which coal is produced, except Lancashire. They are the seats of all the mines and manufactures of the country, and they include a great portion of its agricultural wealth. The practice of making payments without "supplies of coin and Bank-notes from London," is, and has always been, so general, that the solitary exceptions that might be found would only prove the universality of the rule. Throughout these districts, goods for domestic consumption, raw materials for manufacture, and labour, have, we repeat, been paid for in some other way than by "supplies of coin and Bank-notes" fetched from London for that purpose. Lancashire, it is true, is partially, in a very limited sense, an exception;

but it is an exception only in degree, and, principally, as concerns the payments for labour. Labour has, in the county of Lancaster, been chiefly, but not wholly, paid for by " supplies of coin and Bank-notes" carried from London. Goods for domestic consumption, raw materials for manufacture, and, partly, labour, have, even in this district, been paid for in some medium other than Bank-of-England Notes and the Coin of the Realm.

Statisticians have sometimes amused themselves by estimating the annual value of the gross saleable products of industry in the British Islands. Whatever that might, at any time, amount to, is a matter wholly immaterial for our statement; but, taking it at the sum of Five Hundred Millions, it would be quite safe to affirm that not one-twentieth part has been produced, or the quantity or amount of it in any manner affected, by the influence of the banking transactions of the Bank of England with the producers. We distinguish the influence of the banking transactions of this great establishment, from the influence which it has produced upon industry in its character of the principal, and, in some measure, the regulating, creator of the current paper-money of the country. The functions of Bankers (or dealers in capital), and issuers of paper-currency (or creators of representative

capital), are altogether distinct;—it is most material to mark the distinction, and to keep it constantly in mind, in these enquiries.

This view of the particular branch of the subject now under our consideration contains the very essence of the matter which ought to have been regarded by the Government, as of the first and deepest interest, when they undertook, six years since, to enforce changes in the Banking system of the country. It is that matter with which the productive classes are most essentially concerned; and any men duly impressed with the nature and importance of the subject, and anxious to arrive at a calm and dispassionate conclusion respecting it, would, consequently, have proceeded to ascertain the relative degrees of influence exercised by the Private and Country Bankers, and by the Bank of England, upon the productive interests of the kingdom. Such an enquiry was vouchsafed to Scotland and Ireland, and the information it afforded caused the Government to relinquish its plan of improving the currency of those parts of the kingdom; and they left, accordingly, the Banking systems of the Scotch and Irish, which are, in great measure, identified with, or dependent upon, the nature of their currencies, untouched and uninjured. We shall presently discover grounds for believing, that, if a similar investi-

gation had, at the same time, been granted in our case, a part at least, if not the whole, of the ill-digested projects for improving the Banking system and paper-currency of England would also have been abandoned. Those projects arose out of the most erroneous and fallacious assumptions; and the crude plans resulting from them—especially that of establishing Branch-Banks of England—experience has shewn to be unnecessary—inapplicable to the purposes designed—and detrimental to the interests of the most numerous—most industrious—most frugal, stable, regular, and unspeculative,—classes of the community.

We endeavour, in these preliminary observations, to direct our attention constantly to the distinctive difference between the functions which the Bank has performed, of Bankers (or dealers in capital), and Creators of Currency. They involve almost the whole of the Banking-Question, as far as the Bank of England is concerned. If the Ministers had, in the year 1826, duly attended to the evidence of facts, and had been guided by the light which experience affords, they would have hesitated in recommending the Bank to extend its banking business into eleven districts of the country, and the question of extinguishing or not extinguishing "the existing Country-Banks," could never have been balanced in their minds. It is extremely

difficult to confirm by the evidence of facts, any proposition of this abstruse character, relating to matters so excluded from common observation as banking transactions are, and to a subject so little understood. The secrecy with which all the detailed operations of Banks are conducted, precludes the possibility of our having recourse to much direct evidence of a satisfactory nature; but we will try, by the light of very short and imperfect experience, to shew that the functions of creators of the paper-money of the country which is universally current, and of Bankers to the producers of wealth, which the Bank-Directors now claim to exercise concurrently, are altogether incompatible with the interests of the industrious, and must frequently be productive of shocks and convulsions in their affairs.

The paper-currency, which is intended to improve and support productive industry, should flow, freely and equably, from its source, according to established and unvarying principles. It should not be liable to sudden contraction, from causes beyond the controul, and hidden from the knowledge, of those who depend upon it for the employment of labour. If the source of its issue, in any district, be one, or principally one, and the approach to it be prescriptive and exclusive, these principles for its government are more imperative

than if the sources of issue be many, and those readily accessible and open to all classes. Let us examine, therefore, if there be not insurmountable obstacles or intractable circumstances, connected with the issues of the Bank of England, which render that establishment unfitted for creating paper-currency for the uses of industry, and for applying capital, at the same time, to the fields of production, as Bankers to the industrious.

As any detailed observations upon the operations of the Branch-Bank system will arise more conveniently under that particular head of our discourse, we shall here make no other reference to the Banking transactions of that system, than such as is necessary to a correct apprehension of the effects likely to result from the exercise by the Bank, of the function of Creator of Currency, along with that of Country-Banker to the producers of wealth. Regarded as Bankers to the industrious, the Bank of England is placed in different circumstances from all other Bankers. Private Bankers are brokers of capital; and those in the country, who, also, create a currency, rarely issue promissory notes, amounting to one fifth-part of their own capital, and that which has been placed in their hands for the purpose of being applied to the uses of commerce. Money is not placed in the Bank of England and its Branches, as it is in the

hands of Private Bankers, with the intention of its being lent by the Directors, to farmers, miners, manufacturers, and those who deal in the products of their labour and skill. It is not capital, therefore, in whole or in part, which the Bank of England lends to the public; but it is credit—promissory notes, and bills at not exceeding twenty-one days' date. This difference against the Bank is a very remarkable one; and we direct particular attention to it, for we shall presently see that it may, in practice, lead to consequences of the utmost moment to the public. The lending of capital, by brokers of capital, is an operation, if the brokers be prudent, skilful, and discreet, persons, which has a firm and stable basis. It is conducted by known and established regulations, which make it mutually advantageous to those who own the capital, and those who seek to borrow it. It, therefore, has a sound and permanent character, founded on the general interest of the community, and is not liable to interruption from causes arising within the circle of the influence of the Country-Banks. Whenever the regular, free, and continuous, operation of this most important banking function, which is one of vital interest to the industrious, is injured, that injury, as far as concerns stable and prudent Bankers, invariably arises from the measures and proceedings of the Government and the Bank of England, or from causes which they, alone, can

put into operation, mitigate or suspend, counteract or controul. The Bank of England is not a broker of capital; and never can, with safety, become one, so long as it remains the Banker to the State: and, in all the essential requisites for becoming agents for applying capital to production, in agriculture, mines, and manufactures, it must for ever remain incompetent.

If, under the influence of such suggestions as these, a Parliamentary Committee, warned by the example of 1826, avoid drawing conclusions from something which appears upon the surface, and proceed, with caution and integrity, to examine the matter radically and thoroughly, the causes of our erroneous policy at the period of, and subsequent to, the Panic, will soon be discovered. The notes of the Bank of England are never discredited; but they circulate freely, in all parts of the kingdom: therefore, said Lord Liverpool to the Bank-Directors, establish Branch-Banks in different districts of the country, that these notes may, in the course of time, drive all other notes out of circulation, and afford a safe and unvarying currency to the public. The operation of that principle which renders this currency safe to the holder, must make it more variable, uncertain, and precarious, as a means to be relied-upon for the improvement and support of industry, than any kind of paper-currency issued by stable and discreet Bankers. Let us see

how this principle works; it is a matter of deep and serious import.

Taking the circulation of the Bank of England at a given sum—say, for the sake of illustration, at twenty-one millions,—if we could ascertain what proportion of this circulation is issued for paying the demands of the Government and other public bodies, and what portion of it is issued directly into the channels of commerce, we should obtain a pretty accurate knowledge of the principle that governs the amount of that circulation. In tranquil and ordinary times, it is believed that not more than one part out of seven, of the circulation of the Bank, is issued direct into the channels of trade and commerce; and that the remaining six parts are issued pursuant to the demands of the Government and other public bodies. Now, that which, at all times, constitutes six-sevenths of the whole amount of circulation, is that portion of it over which the Directors can exercise no controul. Assuming twenty-one millions of notes in circulation to be requisite for the healthy action of the productive energies of the country, eighteen millions of this sum must be issued for the payments of Government and opulent corporated bodies, for dividends upon Public Securities, Bank-Stock, East-India Stock, for payments for the Court of Chancery, Insurance-Offices, and Joint-Stock Com-

panies of various kinds. The warrants, and checks, and orders, for such payments, are imperative; and, if the sum of Twenty-one Millions of Bank-notes be requisite to the satisfactory support of the industry of the country, let it be borne in mind that Eighteen Millions of that sum are virtually placed out of the power of the Bank, and cannot be diminished without producing terrible convulsions in the affairs of manufacturers, traders, and merchants. In this assumption of the relative amounts of issues passed through different channels to the public, precision cannot be had: it is an estimate, and not a statement of facts.

There is no other general mode by which the Bank can force its circulation directly into the channels of mercantile traffic, than by discounting bills:—the longest date at which bills will be taken for discount, according to the established rules of the Bank, is ninety-three days: the interest charged for the discount-accommodation is at the rate of four pounds per centum per annum. Now, as the market-rate of discount has been generally, for many years, under that of the Bank of England, it is not likely that a very large amount of bills should be taken to the Bank of England to be discounted. Many bills at very short dates are taken to the Bank in the latter part of the quarter, to obtain funds while money is comparatively scarce, for the use of the holders of such bills until the

quarterly dividends are paid: bills are very rarely tendered for discount at the extreme length of ninety-three days. It would, consequently, be fair to assume that the average period which bills discounted at the Bank of England have to run, at the time they are discounted, does not exceed sixty-one days, or one-sixth part of a year: it follows, therefore, that the amount of notes issued for bills discounted would be returned to the Bank six times in the year, on the bills discounted becoming due. The sum here supposed to be issued through direct mercantile channels, into circulation, at a time when the industry of the country is not cramped by contracted issues, being Three Millions floating at any given time, which sum is returned six times in the year, we are led to the conclusion that the whole amount of bills annually discounted by the Bank does not exceed Eighteen Millions.*

If this view of the matter be substantially correct —if it be made apparent that Three Millions may be the whole sum over which the Bank of England can exercise an immediate and effective controul,— when an unfavourable state of the Foreign Exchanges renders it necessary to reduce the general

* A few questions put by any member of the proposed Parliamentary Committee might shew the reasonableness of the estimate, render the validity of the grounds here taken manifest, and establish the accuracy of the conclusion to which they lead.

paper-currency of the Bank, the Directors cannot have recourse to any other expedient than that of lessening the accommodation to the public. Temporary loans, lent upon Public or other Securities, must be called in, and the amount of bills discounted must be contracted and limited. If the contraction or limitation take effect principally amongst those classes of the people engaged in finding employment for labour, and promoting the industry and traffic of the country; and not, as heretofore, amongst the speculative Loan-contractors, Exchange and Bullion Brokers, and Merchants, of London; the consequences to the productive classes that have been seduced to deal with the Bank must be disastrous. Consequently, the Branch-Bank system, which the Government of 1826 forced upon the Bank-Directors for the purpose of bringing the Bank of England into immediate and extended connection with productive industry, appears to be in principle a crude, ill-digested, and dangerous, measure of State-policy.

Whether this conclusion could be fully substantiated by evidence, is a problem that can be satisfactorily proved by a vigilant and impartial Committee of Parliament; and by that, alone. The experience of the working of the Branch-Bank system is, necessarily, most imperfect and unsatisfactory:—it has not been in operation, in any

district, six years, and, in some districts, not four years: it has not yet obtained any direct connexion—the assertion may be made with almost literal accuracy—with persons engaged in productive industry, in eight of the districts where Branch-Banks have been opened, out of eleven, the whole number. The period in which the system has been in operation is one characterized by an unusual degree of pressure on the most important of the springs of industry, and by a remarkable absence of the spirit of speculation, in all trades except two—viz. in the Cloth-and-Wool-Trade, and the Corn-Trade: and the result of the experience—such as it is—can be satisfactorily made known by nobody but the Bank-Directors and their Managers. These circumstances render the perfect development of the subject difficult to all, and impossible to any but a searching, scrutinizing, Committee of the House of Commons.

By such light, however, as has been afforded us, we proceed to refer, very briefly and imperfectly, to the circumstances that have transpired, in support of our argument against the Bank exercising the function of Banker to the internal producers of wealth, in addition to those of Creators of Currency and Bankers to the State.

On looking at the Branch-Banks now established in eleven commercial towns and cities—some of

them as remote, one from another, as Swansea from Hull, Exeter from Newcastle-upon-Tyne, Liverpool from Norwich,—and the nearest being one hundred and six miles distant from London, the seat where the fountain of supply for all is stationed,—it is obvious that the mercantile connexions of the Branch-Banks must be strangers to the Bank-Directors. Persons who resort to them, to borrow money, see only the Managers of these Banks. The negociations for loans upon bills offered for discount, or upon any securities such as the rules of the Bank permit to be taken, are conducted solely with the Managers, by whom all transactions in the routine of business must be sanctioned, and who, alone, (subserviently to general orders,) determine, day by day, the amount of pecuniary accommodation to be granted to any applicant. That these Managers, after they have formed connexions in their new characters of distributors of the money or paper-currency of a wealthy corporation, will become, like other men, subject to the influences of social habits, is natural. Intercourse, whether relating to affairs of friendship or to those of business and traffic, leads to confidence, and to engagements grounded upon it. In periods when there is no pressure on the Bank—when its gold-reservoirs are full, and a desire prevails at the Treasury and in the Bank-Parlour, to

relieve the distress of the country caused by the previous contraction of the circulation,—the Managers will receive instructions to grant and extend all reasonable accommodations by loan to the public. At such times, agreements will be made with applicants, to lend them a given sum of money by discounting bills, whenever they may have occasion for such a previously-stipulated amount. And these agreements would, at all times, be punctually fulfilled, if the Bank-Manager regulated the creation of his own currency, or were a broker of capital which would be constantly flowing into and out of his offices: but he is neither a Creator of Currency, nor a Factor of Capital; and his means of fulfilling agreements are, wholly and exclusively, dependent on the supplies that the Bank-Directors may order to be created for him. This is a most important feature of the case. The Branch-Manager sees all that passes around him—knows all that the public exigencies demand at his hands; but he has no means of completing engagements, formed though unexecuted—of continuing accommodations long and regularly available for the public—or of filling up a vacuum in the circulation suddenly created by failures and commercial convulsions—but such as the Directors in London vouchsafe to him. Then, let us turn to look at their position, to ascertain

whether it be possible for him to place a just and firm reliance on having a full, regular, and equable, supply from the mother-fountain in London.

It is necessary to keep constantly in mind, the very small portion of the paper-currency of the Bank which is under the control of the Directors, to lessen or augment at their pleasure;—it does not exceed one-seventh part of the whole. When, from any cause—war, revolutions, hoarding, unusual purchases of corn, or other commodities, abroad,—a long-continued drain of gold has been experienced at the Bank, a contraction of its paper-issues becomes necessary. What is the process by which this must be effected? By paying a less amount to the public, in all cases where the Directors have the option of withholding. This option can be exercised only in the channels of commerce, and must principally be felt by those persons who are accustomed to borrow money of the Bank by discounting bills. The determination of limiting the amount of bills to be discounted, and, by that means, contracting the circulation, may be intended to be general in its operation; but it will not be general. It will operate partially, and in a manner injurious to productive industry. The weakest, who have necessarily the most dependence on the aid of the Bank for loans, will be its victims; and these will be, when the Branch-

Bank system is in full operation amongst the industrious,—the manufacturers and traders who depend upon the Bank of England for discounts to pay for labour, and for the materials that they are compelled to purchase. How can this be proved? Not, in any manner, positively and perfectly; but, by circumstance and inference, to the satisfaction of any candid inquirer.

General circumstances, habit, and the influence resulting from intercourse and reciprocity, show as forcibly the tendency of men's conduct, as particular facts: and, in such a case as this which we are considering, where details are so hidden from our view, general circumstances, with a few particular facts to support them, would clearly exhibit the operation of the new system, and prepare us to decide what must be the ultimate consequences of its full development and general application. The Directors of the Bank of England are London Merchants; but the most influential members of the Board are not, as formerly, commission-merchants who receive consignments of commodities from distant countries, and purchase, by order, our manufactures and colonial produce, for exportation. They partake more of the character of Bankers, employed to facilitate, and give effect to, the credit, and to the pecuniary transactions, of individuals and of governments and public bodies,

in international traffic: and this characteristic of their business leads them to an intercourse with dealers in Bullion and Exchanges, Stock-Jobbers, Loan-Contractors, Bankers, and Bill-Brokers, and not with the producing classes in the British Islands. This sort of intercourse gives the first general impulse to their conduct as Directors—an impulse which soon becomes a principle of action, by association at the same Board with those who have before them been impelled into the same course of proceeding, under a similar influence, and who had become inextricably habituated to the traffic growing out of such an influence.

The connexions arising out of this intercourse of business are of the closest and most binding character: the Bankers, Loan-Contractors, and Bill- and Stock- Brokers,—those classes that constitute what is known by the term "the great Money-Interest of the City,"—form, in private life, the personal friends of the Bank-Directors, with whom they associate in the most confidential habits of friendly intercourse. When money is solicited from the Bank by the familiar acquaintances or friends of the Directors, it is difficult to refuse compliance. But, over and above the effect of this general influence arising from daily intercourse, there are specific circumstances that fre-

quently increase the difficulty; and they are such as must not be passed over, if a full development of the subject be required. We shall, therefore, briefly avert to them.

A great change has taken place in the mode by which the leading merchants of London regulate their credit- and money- concerns. Thirty years since, the trade of a bill-broker was scarcely known; and it was not till within a much more recent period, that it began to be exercised to much extent, and to obtain much influence in the credit- and money- concerns of the merchants and bankers of the City. None of the wealthier class were ever seen in their offices, and they would have considered it discreditable to them to be known as borrowers of money from bill-brokers. Now, it is well known that almost all merchants and loan-contractors who are in that station in mercantile importance, from which Bank-Directors are selected, resort frequently to the offices of the bill-brokers, to raise money by discounting bills, or upon other security than bills. Some of the Bank-Directors themselves do this; and not the slightest discredit is, generally speaking, the consequence of doing it. The rate of interest charged by the wealthy brokers, for discounting good bills at not exceeding three months date, is, generally, from ten to fifteen per cent. below that charged by

the Bank of England; and when they charge a higher rate of interest than the Bank, it is for discounting bills which the rules of the Bank exclude from its Discount-Office. The bill-brokers have, in consequence of this traffic, acquired an extraordinary power in deciding upon the credit of the merchants and traders of London. They can either give currency and validity to the individual credit of the Bank-Directors, or they can check and injure it.

If we look attentively at the power now exercised by this new influential class of money-agents, we shall be able to form some estimate of the degree of influence which they have acquired in the general credit- and money- concerns of the country. They have now established a correspondence with the depositaries of capital, in all parts of the kingdom, which gives them an extraordinary command over the circulation of mercantile credit. Bank-Directors not only borrow money from them, upon securities many of which would not generally be taken by the Bank, for Loans; but they are aware, at the same time, that their own credit as merchants would not have the same free circulation upon bills accepted by them, without the sanction of the bill-brokers. The circulating credit of the merchants who compose the Board of Directors, amounts sometimes

to a very large sum. If, for example, a Bank-Director be an importer of silk, the custom of the brokers, dealers, and manufacturers, of the raw material, being to give notes at eight and ten months' date, for their purchases from the importers, the Director may find it advantageous, and, at times, extremely important to his credit and prosperity, to be able to discount these long-dated notes of his customers; and this accommodation he can obtain no where but in the Discount-market in London, and, almost uniformly, of the opulent bill-brokers. Another Bank-Director may be an East-India agent: it is the custom of such agents to take, for securing their advances, property which may remain in their hands, for a very long period, unavailable. The unmarketable and inconvertible nature of the Indian landed and mercantile securities, the distance of the East-Indies from England, and the high rate of interest at the respective presidencies, are the circumstances that gave rise to the practice amongst the East-India Bankers and merchants, of accepting bills at very long dates. From this custom, while charges for interest and commission at Calcutta were exorbitantly high, the means of obtaining great incomes were derived; and many of those gentlemen who sit at the Board of Directors, in the Bank, have accepted bills which

are circulating in the money-market, at twelve and eighteen months' date. The advantage to a commission-merchant, of giving an engagement to pay a sum of money at a distant day, instead of paying it immediately, is obvious: if the property lodged be the same, for a loan of credit as for a loan of money, the man who uses credit may quintuple his traffic and his profits. These long-dated bills were the instruments for drawing capital from England, where the rate of interest is five per cent., to India, where the rate of interest, together with mercantile charges, is fifteen per cent. Suppose any one of these bills to be held by a Scotch Banker who freely paid his money for it, because an opulent and skilful London bill-broker assured him of its validity, and suppose the Bank-Director who had accepted it knew that his bill-broker had given it an authority and a sanction which it would not have commanded without the stamp of the bill-broker's recommendation, how strong must be the Director's sense of obligation to the bill-broker, and how ready he must be to testify that feeling whenever the opportunity should arise!

These circumstances are of vast importance in deciding the question of the expediency or inexpediency of allowing the Bank of England to become Bankers to the productive classes, while

they are the principal Creators of the general Paper-Currency of the country. The influence of the London Bankers, Bill-brokers, and Loan-Contractors, must so far prevail with the Board of Directors, as to make it certain that, in the event of any pressure which causes them to contract their accommodations to the public, and to limit their issues, the effect of the contraction and limitation will not be felt in the money-market of London, until the principal dealers and agents in that market have placed themselves in a condition of safety; but, that its effect will fall, with sudden and unmitigable force, upon the weaker customers of the Bank—men engaged in giving activity and effect to capital and labour in the mining and manufacturing districts. Nor is it in the power of the Directors to prevent this consequence, without endangering their own positions in society, or placing the system which governs our finances and our currency in the utmost jeopardy. It has been said, that, to check the operations of a noted loan-contractor when he was causing an alarming drain of our gold currency to Foreign countries, the Directors decided to reject his bills when they were offered to the Bank for discount. This could avail them nothing; because such contractors are always in league with the opulent bill-brokers, and the latter would be

able to command the same sum, either directly or indirectly, for the use of the contractor: and this would be accomplished so secretly and insidiously, that the Directors might suppose they were checking a speculation in Bullion, on the one hand, and, on the other, answering the demands of industry and legitimate commerce, when, in fact, the real origin of demands that would be made upon them would be the necessity felt by the bill-broker, of supporting a loan-monger against the rejection of those same Directors who wished to cripple and circumvent him.

If there prevail in Parliament, a sincere desire to understand this important subject, and to place it on a satisfactory basis, all the involutions of credit, and all the powerful influences which govern the actions and proceedings of the Directors, must be clearly seen and understood.

In applying to its practical uses such information as we are now indicating rather than developing, it would be of great importance if we could trace the effect of the interference and influence of powerful Bankers, Brokers, and Money-agents, in London, upon the conduct of the Bank-Directors, in the immediate and direct channels of its operation;— if we could, in short, say that, on such a day, an influencial contractor, or his agent the bill-broker, induced the Bank to advance him a

very large sum of money; and that, as there existed, at the time, an imperative necessity for contraction instead of extension, the Directors, on the same day, wrote to the Branch-Bank Managers to limit their issues of Bank-notes in the country-districts, and contract the amount of bills held under discount. But such confirmatory facts are not to be obtained; or they would show the irresistible ascendancy of the powerful agents of the Money-interest of London, in the affairs of the Bank of England; would prove, to demonstration, the incompatibility of the functions of Creators of Currency, and Bankers to the industrious, in the hands of the Bank-Directors; and would establish a conviction of the impolicy of the Branch-Bank system, as well as of the danger of extending it, and rendering it permanent.

Five, or even ten, years, would, by intelligent and scientific Bankers, be considered a very short period for shewing the issue of any enterprise in Banking-affairs, on an extensive scale of operation. The Branch-Bank system has hardly gained a footing in several of the districts where Branch-Banks have been opened. The experiment has not yet afforded any results in confirmation of the wisdom of its projectors. Wherever the system has met with encouragement from the public, and much custom has arisen from the temptations held

out by the Managers and by the terms of transacting business, circumstances, developed in the course of a very short and imperfect experiment, clearly indicate how great would have been the danger to the public welfare and prosperity, if the system had been temporarily successful, and great interests had become generally connected with it, and dependent upon it. We are assured that a convincing illustration of the evil consequences to be apprehended from a general application of the system might be given in evidence, from the experience of two or three Branch-Banks where more business has been performed than at almost all the rest put together. It might, we believe, be proved, that, on the one hand, the Managers have given greater encouragement to inconsiderate and reckless speculators, than all the Private Bankers in the same districts as those in which the Branch-Banks are situated; and, on the other hand, that, in a moment of pressure arising from the export of gold, engagements to grant accommodations have been broken by the Manager, which would have been faithfully fulfilled by every stable and judicious Private Banker in England. It is not, perhaps, at present, necessary to prolong the discussion upon this subject. Nothing further can be accomplished by an essay, than establishing a conviction of the necessity of enquiring into the expediency

of allowing the Bank of England to continue to be the Creators of the general Paper-Money of the country, and Bankers to those classes of the people engaged in productive industry. An appropriate enquiry would show whether the latter function could be safely and satisfactorily exercised by any other agents than brokers of capital, which the Bank of England, according to the fundamental principles of its constitution, and the established regulations for its practice, can never become.

If the operation of the principles relating to the concurrent exercise by the Bank of England, of the distinct functions of Creators of Currency, and Bankers to men engaged in productive industry, here brought into view, should receive any satisfactory illustration from the proceedings of the Parliamentary Committee, it would, whatever should be the conclusion, be acknowledged as a proof of the impartiality and integrity of the Government: and, however disagreeable it may be to their dispositions, whatever obstacles may lie in their course, whatever labour and difficulty may attend the execution of the investigation, the Members of the Parliamentary Committee will be bound to penetrate the mystery in which the proceedings of the Bank have been enveloped. It is impossible that the public should remain content with seeing the vast pecuniary resources of the Kingdom directed to distant objects,

while the productive powers and commercial energies of this country, in the internal channels of production and consumption, are decaying for the want of that nourishment which a judicious distribution of capital would afford.

In the foregoing observations, it has been the anxious desire of the writer to refrain, as much as the nature of the subject would permit, from all remarks of a personal and particular character. It is a great and most important public Question, and whatever should be found necessary to its full and perfect elucidation must be brought to light; but all who are acquainted with the conduct of the Bank-Directors, in their very important trust, must freely admit that there never was a body of men who administered their affairs with more impartiality and justice towards the public, as far as this could be done under the powerful influences that govern them.

SECTION II.

ON THE ALLEGED DEFECTS OF THE PRESENT SYSTEM OF BANKING IN ENGLAND.

It has never been accurately defined what is meant by "the defective system of Banking in England." Whether the phrase be applicable to the Country-Banks only, or to all Banks carrying on business with a limited number of co-partners, has never been clearly laid-down by those who rendered it current. If the latter, it includes London-Banks as well as Country-Banks; for all Banks in London, except the Bank of England, are limited, by law, to a number of co-partners not exceeding six. But, as the London Banks have never been denounced by our statesmen and Legislature, for their incompetency to the wants of the community, and their "objectionable and dangerous" properties, and as the Country-Banks have received the full measure of their censure and condemnation, we must conclude that these, alone, have been pronounced to be defective and bad, and to require alteration and improvement. That this conclusion is correct, appears by the whole

tenour of the communication of Lord Liverpool, dated January 13, 1826: and its correctness is confirmed by the proceedings of the Government and the Legislature of that year, and by the Act of the 4th of Geo. IV. cap. 46, which grew out of them; the operation of which is limited to a distance exceeding sixty-five miles from London, and, consequently, all Bankers in London, as well as all Country-Bankers within that distance of London, are excluded from its operation, and remain limited to a number of co-partners not exceeding six persons.

The specific measures for the correction of assumed defects in the system of Banking in England, which have been recommended on authority, appear to have for their object an improvement in the system of Banking in the country, and that alone. The changes which have taken place, and other changes which have been contemplated, avowed, and promulgated, by the Governor of the Bank, may all be traced to the doctrines contained in the aforesaid communication of 13th of January, 1826, to the Governor and Deputy-Governor of the Bank, in which the disorder and the remedy are dwelt-on in thirty-nine consecutive propositions. This is the great fountain of those opinions that have, subsequently, been diffused through all the channels of circulation that are used for giving currency

to opinions of party-disputants on great public Questions:—Pamphlets, Reviews, Magazines, and Periodicals of all kinds, have lent their aid in this work of disseminating doctrines rendered safe and fashionable by the example of the highest functionaries in the Realm; but, as they are merely subsidiary in diffusing the opinions flowing from the main fountain, and contain little beyond the repetition of such phrases as "wretched system of Banking," "worthless currency," "the fraudulent practices of Country-Bankers," with dissertations upon these texts, which can make no impression on any man acquainted with the subject, we shall confine our notice, principally, to the opinions expressed in the following extracts from the aforesaid public document:—

"1. The panic in the money-market having subsided, and the pecuniary transactions of the country having reverted to their accustomed course, it becomes important to lose no time in considering whether any measures can be adopted to prevent the recurrence, in future, of such evils as we have recently experienced.

"2. However much the recent distress may have been aggravated, in the judgement of some, by incidental circumstances and particular measures, there can be no doubt that the principal source of it is to be found in the rash spirit of speculation

which has pervaded the country for some time, supported, fostered, and encouraged by the country banks.

* * * * *

" 8. The failures which have occurred in England, unaccompanied as they have been by the same occurrences in Scotland, tend to prove that there must have been an unsolid and delusive system of banking in one part of Great Britain, and a solid and substantial one in the other.

* * * * *

" 15. The matter of regret is, not that the country banks have been suffered to exist, but that they have been suffered so long to exist without control or limitation, or without the adoption or provisions calculated to counteract the evils resulting from their improvidence or excess.

" 16. It would be vain to suppose that we could now, by any act of the legislature, extinguish the existing country banks, even if it were desirable, but it may be within our power, gradually at least, to establish a sound system of banking throughout the country; and if such system can be formed, there can be little doubt that it would ultimately extinguish and absorb all that is objectionable and dangerous in the present banking establishment.

" 17. There appear to be two modes of obtaining this object:—

" First. —— That the Bank of England should establish branches of its own body in different parts of the country.

" Secondly.—That the Bank of England should give up its exclusive privileges to the number of partners engaged in banking, except within a certain distance of the metropolis.

" 18. It has always appeared to us, that it would have been very desirable that the Bank should have tried the first of these plans:—that of establishing Branch Banks upon a limited scale. But we are not insensible to the difficulties that would have attended such an experiment, and we are quite satisfied that it would be impossible for the Bank, under present circumstances, to carry into execution such a system, to the extent necessary for providing for the wants of the country.

" 19. There remains, therefore, only the other plan: the surrender by the Bank of their exclusive privilege as to the number of partners, beyond a certain distance from the metropolis.

" 20. The effect of such a measure would be the gradual establishment of extensive and respectable Banks in different parts of the country; some,

perhaps, with charters from the crown, under certain qualifications, and some without.

" 21. Here we have again the advantage of the experience of Scotland.

* * * * *

" 26. If the concerns of the country could be carried on without any other bank than the Bank of England, there might be some reason for not interfering with the exclusive privilege; but the effect of the law at present is, to permit every description of banking, *except* that which is *solid* and *secure*."

It would appear from the above considered and matured propositions of the King's Ministers—which substantially embodied all the opinions relating to the subject of Banking, that were then current among men of authority in Parliament and Administration,—that no measures could be contemplated, but such as proceeded on the undisputed assumption contained in number 8—viz. that the system in England is " unsolid and delusive," while that in Scotland is " solid and substantial." This forms the basis of every suggestion and recommendation of the Government, the text for every commentary of the essayist, and the ground for every banking scheme of the speculative and visionary.

Owing to the reprehensible supineness of the Country-Bankers, this assumption was allowed to

circulate as an undisputed axiom. They made no effort to counteract the effect which it produced on the conduct of the Government, and the proceedings of the Legislature; and we apply to them the term reprehensible, because men whose fortunes had been raised, augmented, or improved, by a species of commerce which resulted from the confidence of the public, were bound in honour to step forward as a body, in defence of a system, when they found that deep and irreparable injuries would be inflicted upon the productive classes of the community, with whose interests they were indissolubly united, in consequence of the dangerous prepossessions of the Ministers. The Private Bankers have a great public trust, and they are morally responsible for its exercise and guardianship.

There never, we venture to assert, was a matter of grave general concern and importance, dealt with so ignorantly, so confidently, and with so much deep and injurious prejudice; and, as nothing can more strongly conduce to that state of mind which is requisite to enable us to enter upon a temperate and impartial inquiry into the alleged defects of the present system of Banking in England, than a just apprehension of the extent of the ignorance prevalent amongst those who have had the power

to decide the Question in public life, we will first advert to a few facts in illustration of it.

All writers and public speakers, who have taken a prominent part in discussions on the subject, have asserted that the practice of receiving sums of money on interest, and accounting for the same on demand, and of lending sums to the industrious on the system of cash-credits, is peculiar to the Bankers of Scotland. "The Banking system of our neighbours," says a writer in the Quarterly Review,* "presents three great and leading "features: it offers to the frugal a safe, and at "the same time, a profitable depository for their "loans advanced upon cash-credits; and the public "at large it provides with a safe, economical, and "convenient circulating medium. The utility of "the two former functions is too manifest to admit "of dispute; but with regard to the latter function "—that of providing a circulating medium—it is "strenuously contended that that is not an essential "feature of, but merely an adjunct to, the system. "Those who hold this opinion, urge that, although "the Scotch system of Banking be good as it "stands at present, it would be still better without

* See an able article on Banking, in the 86th Number, for October, 1830.

" this adjunct, which they represent as an un-
" necessary, and even injurious excrescence. From
" these views we must take the liberty of ex-
" pressing our unequivocal dissent: far from re-
" garding this function as an excrescence, which
" might be lopped off, we consider it as the hinge
" upon which the whole system turns." And in a subsequent part of the same article—" When an
" English farmer," says the writer, " sells any
" portion of his produce, he has generally no alter-
" native which can serve his purpose better than
" to keep the proceeds locked up in his drawer
" until the next rent-day. He may, it is true,
" lodge it in the hands of some Country-Banker;
" but then he can get no interest for it, and
" besides, the Banker may fail." The late Mr. Tierney, in a debate on the 26th of May, 1826, said—" Because, what was there—if the law
" continued in a state to allow it—what was to
" prevent our doing just the same thing in Eng-
" land?" (viz. receive deposits on interest, and grant cash-credits.) " I can see no reason for it,
" and I deny that in England the same may not
" be done: indeed, I was surprised to find, *what*
" *I did not know until this day*, that cash-credits
" do exist in some of the most respectable Country-
" Banks in England. (Hear.) The cheers of the
" Honourable Gentlemen opposite would be suffi-

" cient evidence that I am not misinformed by " the eminent banker to whom I am indebted for " my knowledge."

Mr. Tierney was a man of quicker apprehension than most other members accustomed to deal with financial questions, and light appears to have penetrated his mind, upon this subject, when the minds of almost all other senators were enveloped in darkness ; but this charge lies against this acute and able financier—that he had proceeded, very confidently, to assist in passing laws affecting Country-Bankers, when he was in utter ignorance of all that relates to their practical operations. Mr. Huskisson, who wrote the draft of the afore-mentioned famous document to the Governor and Deputy-Governor of the Bank, was, equally with Mr. Tierney, ignorant of the practice of Country-Bankers. One of these Bankers—a Member of Parliament—held a conversation with the Right Honourable Gentleman, in the lobby of the House of Commons, during the session of 1826, when the measures relating to Banking, which have produced such disastrous consequences, were under consideration. In this conversation the Banker alluded to the Deposits of Country-Bankers on interest. " Deposits !—What " do you mean ?" inquired this influential Minister. " I mean," responded the Banker, " sums of " money received by Country-Bankers, from the

" public, on interest, to be paid back whenever " demanded." This information was so new and surprising to the Right Honourable Gentleman, that his only reply was, " No, no; you will not make " me believe that you Country-Bankers are such " fools as to allow interest on deposits, and pay " them on demand." These facts are adduced to shew how entirely destitute of information were the Government and public men, when they proceeded to legislate upon the subject. Similar ignorance was exhibited by Lord Liverpool and the Bank-Directors at interviews with merchants and country-gentlemen who were wholly unconnected with Bankers, when they came to London for the object of devising means for mitigating the evils of the panic.

The briefest reference to the practice of the English Country-Bankers will shew the fallacy of those assumptions upon which measures of the greatest importance to the community were grounded.

Every Country-Banker in England and Wales is in the practice of lending money to the industrious: if the borrower desire to have it advanced and received back by the Bank, upon the system of a cash-credit, he may receive it and pay it back in that manner. The practice, in most of the principal Banks in England, is reduced to a pretty

regular per-centage system:—the borrower may command a stipulated amount to be lent on a cash-credit, corresponding to the amount returned in his Banking account, and the profit to the Banker arising from it; and he may use the whole, or any portion, of such stipulated amount, whenever he wishes: he may take any part of it for a week or a month, and pay it back again; and the interest upon each distinct entry, for or against him, will be calculated from the day of the receipt or payment. Messrs. Gurneys and Co., of Norfolk, had, at one period, nearly a million sterling lent to the industrious in the vicinity of their several Banks. This sum was lent chiefly to manufacturers, farmers, millers, and dealers in agricultural produce. This is so far from being a solitary example of the practice, that it may be safely affirmed that nothing but the increased risk attending it—a risk owing to causes over which the Bankers had no control, and which were altogether superinduced by the erroneous policy of the Government,—has, to this day, abridged the power of the farmers and traders of England to borrow money of the Country-Bankers.

Then, with respect to the other "great and leading feature," as it is called, of the Banking system of Scotland, this short statement will shew the monstrous fallacy of assuming it to be a pecu-

liar excellence of the system which is in operation in that country.

There always did exist a few Country-Bankers in England, who allow no interest upon deposits. Their number has increased since the panic of 1825–6, owing to the difficulty of finding employment for money placed in their hands by the public. But, at this moment, thirty-nine, out of every forty, of the Country-Bankers of England and Wales, allow interest upon deposits: nine, in every ten, of these, allow an interest which is, in most cases, one per Cent., and, in all cases, a half per Cent., more than is allowed by the three chartered Banks of Scotland. And that they encourage the frugal to make small savings, equally with the Scotch Banks, is indisputable, not only from the above-cited fact, that they allow a higher rate of interest; but, also, from the following reference to an individual case, which, though it may be solitary as regards a large aggregate sum accruing from a great number of very small deposits, is, nevertheless, merely an example of general practice:—An English Country-Bank, of known wealth and responsibility, has an amount of upwards of forty thousand pounds deposited on interest, composed of separate sums, the largest of which does not exceed thirty pounds. This may suffice to show the validity of the claim for exclusive excel-

lence in favour of the Scotch Bankers, with regard to the two most important of the three great leading features of their system of Banking; the other will be discussed more appropriately in another part of this inquiry.

Having made a brief, but a sufficiently explicit, allusion to the deplorable ignorance of public men, respecting the nature of the business of the Country-Bankers, and having shewn the absurdity of the claim for the superiority of the system of the Scotch Banks with regard to these two essential points of their practice, we shall now proceed from discussing the functions, to a calm and deliberate examination of the specific charges on which the assumption of the "alleged defects of the present system of Banking in England" mainly rests.

The proof of the defective state of Banking in England rests principally upon two assumed facts—viz. first, the disposition and practice of Country-Bankers, to encourage speculation; and, secondly, the number of failures. Fair investigation would shew, that the one was altogether without foundation, and that, in respect to the other, gross, erroneous, and exaggerated, statements had led to conclusions which are exceedingly fallacious.

The last signal speculation witnessed in this country was that which immediately preceded the

Panic of 1825–6. Speculation, indeed, throughout all classes, was, about seven years since, carried to an unjustifiable extent; *but it is a remarkable fact, and pregnant with instruction, that, speaking of merchants, interchangers, and manufacturers, and not of Bankers, all the large conspicuous failures which occurred between July,* 1825, *and April,* 1826, *were among persons who had no connexion with English Country-Bankers, and who resorted, not to Country-Bankers' Notes, but to those of the Bank of England and the Scotch Bankers, to keep up the excess of their own credit-circulation,* which was the consequence of their sanguine speculations. These failures occurred amongst merchants and booksellers, in *London, Liverpool, and Edinburgh, where English Country-Bank Notes are never used.* The first remarkable failures that occurred, in the year 1825, were those of the Cotton-Merchants, and other speculative persons, in Liverpool. Then the Booksellers of London and Edinburgh, and the Merchants of London. Messrs. Crowder, Clough, & Co., of Liverpool, with many connected with them in speculation, failed early in the autumn. What the gross amount of their enormous debts was, we cannot state; but we will take for illustration another failure which resulted from the same "rash spirit of speculation," and which was "supported, fos-

tered, and encouraged," *not* "*by Country-Banks*," but by the Bank of England, the Scotch Banks, and the Bill-brokers and Bankers of London:— Messrs. Hurst, Robinson, & Co., Booksellers, of London, were the correspondents of Messrs. Constable & Co., of Edinburgh, and were associated with them as publishers. The two houses failed at the Panic, as did Sir Walter Scott, and Messrs. Ballantyne & Co. the Printers; the whole being connected together in the great manufacture of Books, and supporting each other by accommodation-Bills, cash-credits, and by discounts, in London. What was the amount of the debts of Messrs. Constable & Co., or how much they paid in the pound, we do not know. The amount proved under the Bankruptcy of Messrs. Hurst, Robinson, & Co., is £618,000, and the dividends paid by that firm amount to fourteen pence in the pound. The amount owing by insolvent Booksellers and Stationers in London and Edinburgh, at the time when they stopped payment, in 1825–6, exceeded two millions sterling; and their speculations in land, hops, and various commodities, had been carried to an excess which never could have existed if it had depended on the encouragement of Country-Bankers. Those speculations were conducted mainly upon the individual credit of the respective speculators, and by accommoda-

tion-bills, which were, in great measure, upheld by means of a practice prevalent in Scotland—viz. by each party having two or three cash-credits, and discount-accounts, with different Scotch Banks. They were, almost wholly and exclusively, maintained by this means, and by discount-accounts at the Bank of England, and at the offices of the Bankers and Bill-Brokers of London.

To confine our observations, however, to those persons and occurrences which attracted the most notice, would not be doing full and perfect justice to the subject. Patient inquiry has given us local information, which, to avoid tedious details, may be comprised in the following summary statement. We assert, therefore, that, if the circumstances *of all the persons who failed within that period* were examined, it would be found that the far greater proportion of *failures was amongst persons who had most to do with Accommodation-Bills and Bank-of-England Notes, and least with Country-Bankers' Bills and Notes.* Consequently, we find that the failures of manufacturers were most numerous, and the amount of their debts the largest, amongst those who wrought up cotton, silk, hemp, and flax, *because they had most concern with bills and credit-currency,* which was passed into circulation by sanguine or speculative traders in league with them, without regard to its amount, and which was not under the regulation of Country-Bankers, who

would have checked its increase: whilst the failure of those who wrought up sheep's wool (whether in the west, east, middle, or north, of England,)—leather, iron, and other metals,—were, in the comparison, small in numbers and amount, because the manufacturers of these materials were most under the influence and salutary operation of the Country-Bank System.

If the facts to which this brief reference applies should be investigated by a competent authority, they would unanswerably demonstrate, *that to English Country-Bankers does not attach the charge of fostering speculation and inducing failures.* But a reference to the condition of places with respect to the number of failures in them—a reference which any man who visits those places might make—would establish the proposition, not in a stronger, but in a more tangible and confirmative manner, because this kind of evidence is more conspicuous and undeniable. Let any man take, proceeding in a zig-zag direction throughout England, a few large places distinguished for manufactures or considerable traffic, where Country-Banking has been the longest time established, and where the system is well understood and beneficially practised: and we may confidently ask any one acquainted with the merchants, manufacturers, and traders, in Newcastle-upon-Tyne, Kendal, Leeds, York, Hull, Lincoln, Sheffield, Newcastle-

under-Line, Stoke (the Potteries), Nottingham, Derby, Leicester, Birmingham, Wolverhampton, Kidderminster, Worcester, Gloucester, Bristol, Taunton, Yeovil, Myrther-Tydvill, Swansea, Exeter, Truro, or Norwich, to describe the condition of these places, as to failures, during the crisis of 1825–6. These are selected because they are all towns of considerable business, where Country-Banks have been long established, and where, with some exceptions, they have, of late years, been conducted upon sound principles. Great distress existed in several of these places, amongst the working classes; but *it is notorious that, in many of them, not a single failure took place during, or in consequence of, the great convulsions in credit; while in all, the failures were very few, compared with other towns containing the same number of inhabitants,* where the Country-Bank System was not in operation.

We, therefore, confidently ask all who deny the position that Country-Banking has less tendency to promote speculation and induce failures, than other systems of Banking, *to prove, by a reference to the failures in London, Liverpool, Lancashire, and all Scotland, where Bank-of-England and Scotch Notes almost exclusively circulate,* that the Scotch and Bank-of-England systems of banking have less tendency to promote speculation than the Country-Bank system of England. If they fail to do this, what can be thought of the rash and ground-

less charges made by the Ministers? and what would impartial justice say of the knowledge and discretion of men who recommended proceedings in Parliament, respecting Country-Bankers, founded upon so injurious and fallacious an assumption?

To all acquainted with the subject, the fact, that the great mass of mercantile failures in 1825–6 occurred within six miles of St. Paul's, within sixty miles of Liverpool, and in Scotland, is notorious and undeniable; and it proves the monstrous injustice of Lord Liverpool's allegation, "that the "principal source of distress is to be found in the "rash spirit of speculation which has pervaded "the country for some time, supported, fostered, "and encouraged, by the Country-Banks."

We now see how reprehensively ignorant of the actual state of the case were the Ministers of the Crown in 1826, when they presumed to stop the operation of a law by an Order in Council, and recommended proceedings affecting, most injuriously, the productive classes of the community, through the mischief done to the Country-Bankers of England. And, if it can be demonstrated that the charge of encouraging speculation could not be fairly made against Country-Bankers before the great convulsions in commerce seven years ago, all the facts that have transpired since that epoch confirm the correctness of that conclusion by ex-

perience: and any attempt made at this day, to controvert it, would be absurd from the ignorance, or contemptible from the obstinacy, which it would display. It might be said, with almost exact, literal, truth, that (taking the places before cited as affording a fair illustration of the working of the English Country-Bank System) hardly one important failure has occurred since the year 1826 at these twenty-four towns, except at Birmingham and Bristol: and the failures at these places have been mixed up with, if not absolutely caused by, the operations of the Branch-Banks of England. Nobody can deny that, after London and Lancashire (where other systems of Banking and currency than those exercised by Country-Bankers chiefly prevail,) the towns of Newcastle, Kendal, Leeds, York, Hull, Lincoln, Sheffield, Newcastle-under-Line, Stoke, Nottingham, Derby, Leicester, Birmingham, Wolverhampton, Kidderminster, Worcester, Gloucester, Bristol, Taunton, Yeovil, Myrther-Tydvill, Swansea, Exeter, Truro, and Norwich, are the centres of all the principal mines, manufactures, and commerce, of England. They are the places where the Country-Bank system has been the longest in operation, and where that system has been eminently successful in bringing credit and credit-currency under its salutary regulation and control. The amount owing by persons who failed

at these important towns, during the convulsive crisis of 1825, was not, we believe, in a greater proportion than one-eighth (rated according to the respective traffic carried on) to that which was owing by the persons who failed, at the same period, in London, Liverpool, Glasgow, and Edinburgh: and, looking at the failures that have taken place since the "panic in the money-market," we find scarcely any of magnitude, except those which have taken place in London, Bristol, Birmingham; at Glasgow, and in different parts of Scotland. The most conspicuous of these are those which occurred in the Sugar-trade, the West-India trade, and five Banking-firms, of London,—a factor, and a manufacturing druggist, with some minor failures, at Birmingham,—those amongst the corn and cattle dealers, the Rennies and Armstrongs, of Scotland,—the merchants of Glasgow, the clothiers of Gallow-Shiels, the cloth-factors of London, and the merchants of Bristol.

So far, therefore, from experience, whether before or since the Panic, establishing the truth of the allegation that speculation "has been supported, fostered, and encouraged, by Country-Bankers," precisely the opposite of this is the truth. Country-Bankers, on the main, are the most active and vigilant repressers of speculation. We go further,

and assert, without the fear of contradiction from any man acquainted with the subject, that hardly any great speculation is ever carried on in any part of the country, without receiving its main support from the Bank of England, the Bankers of Scotland, or the Bankers or Bill-brokers of London. This assertion could be proved by facts connected with the great failures in Glasgow in the year 1828, as well as those in the present year; by the other Scotch failures above referred to; and by those conspicuous failures that have also occurred in England, since the Panic. The two largest of these are Bourne & Co. in the cloth-trade, who, it is believed, owed upwards of ten thousand pounds to the Branch-Bank of England in Bristol, and another large sum to the Bank of England in London; and J. L. Chance & Co., manufacturers of glass and exporters of manufactures generally. The last is a Birmingham house, with an establishment in London: as their credit was in general circulation in Warwickshire and Staffordshire, it was natural to expect that the Private Bankers of that district would be the greatest sufferers. This, however, is not the case: Mr. Chance, in a circular dated April 6th, and addressed to his creditors, says, "having con-" sulted four of my principal creditors;" and then he names, as these principal creditors, two London Banking firms, that of an eminent bill-broker in

London, and one mercantile firm whose trade lies with the East Indies. It is not meant to be inferred that London Bankers are *disposed* to encourage speculation; but, from the magnitude of their concerns, it is impossible for them to detect accommodation-bills and other evidences of imprudent speculation, with the same facility and certainty as Country-Bankers. Speculative merchants generally keep more than one Banking account with Private Bankers, as well as one with the Bank of England, for the purpose of disguising their operations. These are methods of preventing the nature of the traffic becoming known to the Bankers, which cannot be resorted to in the country, except with the Branch-Banks of England and the Joint-Stock Banks.

We may now confidently close this part of our discussion, with a firm reliance upon the impartial judgment of every just and considerate man, to decide whether the facts and circumstances here presented to his mind, do not prove, beyond all dispute, that the allegation of Country-Bankers being promoters of speculation is altogether false.

Respecting the other general charge relating to the losses encountered by depositors of money-capital, from the failures of Country-Bankers, less need be said, because, on this head, truth requires that we should make considerable admissions. The trade

of Banking is of the most delicate and important character. The practice of receiving deposits of money on interest, and lending the same, on the slenderest security, to the industrious, for the purposes of production, requires a combination of peculiar properties in the man who exercises it. It is not like the business of a scrivener, into whose transactions considerations of personal character enter but little, and in which real security, in land or otherwise, forms the basis of the traffic. The business of a Banker, on the contrary, in his intercourse with his borrowing customers, requires the nicest powers of observation and discrimination to decide upon the character and moral habits of the person to whom he makes a loan: and it consists in estimating justly all those general circumstances that would warrant a Banker, at any particular period, in giving or extending credit to a greater number of people, or in increasing or diminishing the amount to be lent to the same number. That a business of this character should, in the earlier stages of its operation, be liable to the consequences resulting from inexperience, ignorance, or misconduct, is a matter which can surprise no considerate person. Wherever the practice of Banking has been generally introduced—whether Banks were formed upon the principle of Joint-Stock Proprietaries, or of private copartnerships,—disasters have marked its earlier progress. Up-

wards of one hundred Joint-Stock Banks have been closed in the United States of America, from insolvency. In a business so subtle in its influence, so delicate in its character, and so powerful in its operation, it is not wonderful that many of the Country-Bankers should have been brought to ruin, by proceeding sanguinely in a course of apparent prosperity, without adequate knowledge, circumspection, and experience. What we contend for is, that, when the Country-Bank system had been a sufficient number of years in operation to render the imperative necessity for these qualities manifest, prudential influences had gained such an ascendancy in the minds of Country-Bankers, and so altered, in consequence, had become the conduct of the sanguine and confiding, that the interference of the Government, on this ground, was, in the last degree, unnecessary and mischievous. It should, moreover, be constantly borne in mind, that the loss of capital, the disturbance of its just application, and the derangement of credit-engagements altogether, have been less under the operation of the Country-Bank system, than under that of the Scotch as practised in Scotland.

Without this reference to the peculiar characteristics of the Banking business, it would be impossible to afford such a candid, deliberate, and satisfactory, consideration of the subject, as would enable us to appreciate justly the consequences

that have flowed from it. It is a subject that cannot be safely dealt with, upon partial and superficial examination: and, if the Ministers of the Crown had vouchsafed such a full and perfect investigation as they granted to the Scotch and Irish Bankers, the fallacy of their assumptions, the error of their opinions, and the injustice of their judgment, respecting the Country-Bankers of England, would have been apparent.

With regard to this point of the failures—upon which, we have said, we are disposed to make considerable admissions,—such an investigation would have placed it in a different point of view from that which has been taken of it, by public writers, lecturers, and Cabinet-Ministers. Those admissions would not relate to the Country-Bankers as a body, during the last fifteen years; because, during that period, their conduct has, on the whole, been distinguished by great prudence and circumspection, accompanied with not less remarkable moderation and forbearance. After the numerous failures of Country-Banks, which accompanied the commercial convulsions that marked the closing years of the war and the few first years of the succeeding peace, this important body of men began to conduct their affairs with increased attention and greater ability; necessity obliged them to become more cautious, circumspect, and skilful. The

Science of Banking was better understood, the disasters resulting from ignorance and inexperience operated as a salutary warning, and the Banking-business was rendered altogether more sound and substantial. This signal change in the practice of Banking—a change on which our case, in great measure, depends,—is perfectly well understood by men initiated in Banking mysteries; and its effects, seen in the diminished number of insolvencies, and in the better state of the assets of those who became insolvent, are such as might have been apparent to the most ignorant and superficial. Many Country-Bankers failed during the war, who paid little or nothing; and very few, indeed, of them, delivered their assets, in a tolerably satisfactory state, to their assignees. But almost all that failed at the panic of 1825-6 paid nearly in full. Taking the mass of all who were then compelled to stop payment, it may, we believe, be demonstrated, that between eight and nine tenths of the whole of their debts have been paid. Let us take, for illustration of this position, those five names whose respective stoppages created the greatest sensation in the public mind, because their debts to the public were respectively larger than the debts of any other Bankers that stopped at that crisis. We allude to

Messrs. Elford and Co., of Plymouth.

Wentworth and Co., of Wakefield and York.

Messrs. Hollick and Co., of Cambridge.

Gibbins and Co., of Birmingham, Swansea, &c.

Sparrow and Co., of Chelmsford, Braintree, &c.

The two first owed their failure to the bad system of conducting Banking business, which prevailed amongst the sanguine and inconsiderate during the war. They became involved in the risks and embarrassments which resulted from that system; and they either had not the power, or resolution, to extricate themselves from it, when a better system began to prevail among their competitors. Tne failure of these two Banks was, therefore, the effect of a disease which was caused by the excitements of the war and the credit-excesses of the Government, and which was in a natural course of being eradicated by gradual improvement. But even these failures, surpassing almost all others of recent date in their disastrous consequences, were not of so bad a character as almost all of those which occurred during, and immediately subsequent to, the war.

Messrs. Elford and Co. have paid 12*s.* 6*d.* in the pound.

Wentworth and Co. have paid, at their York Branch, 14*s.* in the pound; and at the Wakefield Branch, 12*s.*

Then, of the three remaining—Messrs. Hollick and Co. have, under a Commission of Bankruptcy, paid in full;—Messrs. Gibbins have, at their Swansea Branch, paid in full; at their Birmingham Branch, 13*s.* in the pound; and they are ready to pay in full, if they could get their affairs out of Bankruptcy, and the commission superseded;—Messrs. Sparrow and Co. paid in full, with interest; and they resumed their business within three months after its suspension, the firm being opulent at the time that it was compelled to suspend its payments.

Since the year 1826, five London Banks have failed. Two of these were the depositaries of the surplus cash of more than twenty Country-Banks. Many of the sums in their hands, belonging to the Country-Banks, were large, and some very large,—in one instance, more than £30,000, and, in two several instances, more than £40,000. The two London Banks most connected with the Country-Banks will pay but a small portion of their debts. Yet, but one of the Country-Banks connected by correspondence with them has failed; and, though its loss by the insolvency of the London Bank is upwards of £35,000, the whole of its own debts will be paid to the public. The partners of this unfortunate and deeply-injured Country-Bank, are, notwithstanding the full payment of their debts,

Bankrupts, and will, as such, serve the purpose of some speculative schemer, to make an impression upon the mind of an inexperienced Minister, of the unsound state of the Country-Bankers of England. Including this, eight Country-Banks have stopped payment since the Panic-year 1825–6: by six of them, the public will sustain loss—the result of excitement and imprudence generated by the circumstances of the war. Their debts do not, collectively, amount to £250,000; which, it is believed, is less than a three-hundredth part of the gross amount of the deposits and issues of the Country-Bankers of England.

The last six years have been years of unexampled pressure on the productive classes of the community. Among these classes, alone, are, generally speaking, the debtors of Country-Bankers to be found. That, during so long a period of trial, only seven or eight, out of five hundred, should fail, is, assuredly, no proof of the unsoundness of the system. In such difficulties as those in which the Government have placed the Country-Bankers of England, that any errors should have been discovered in the conduct of an eightieth part* of the number—that there should have been any

* The proportion is less than an eightieth part, reckoning the number of persons licensed as Bankers, and the number of persons who have failed as Bankers.

irregularity in the payment of a three hundredth portion of the amount of their debts,—that any insolvency should, ultimately, be proved against any Country-Bankers whatever,—are circumstances to be lamented; but such circumstances afford so insignificant an exception to a general rule, that it ought to be taken as an unequivocal sign of the soundness and stability of the Country-Bank system; and, when contrasted with the results of former practice, as a conclusive proof that it was undergoing that wholesome change in the only defective parts of its operation, which rendered the interference of the Legislature, with its functions and effectiveness, extremely detrimental and pernicious.

This brief sketch faithfully indicates the actual state of the affairs of those Bankers whose operations furnished the strongest case for the Administration to proceed upon, in their dangerous course of policy relating to this important subject: and when we reflect, that the inconsiderate and ill-advised measures of the Government caused a sudden and ruinous decline in the value of property, which rendered it impossible for all but the wealthy instantly to fulfil their engagements, it becomes evident that the conduct of the Administration was immeasurably more deserving of censure, than the conduct of the Country-Bankers.

It may be a very effective stroke of policy, for men

who wish to raise up Joint-Stock Banks for the purpose of gambling in shares, to represent the number of Bankers that have become bankrupts, as a crying evil; and well-meaning, superficial, persons may be deluded by such representations: but no man who merits to hold the important trust of a Legislator will venture to pass on to a conclusion, without undertaking an analytical examination of the matter. It is acknowledged that several Country-Bankers failed, owing to their having abused their trust, by diverting the funds of their customers to private speculations; and a heavy censure rests upon them, for such conduct. But many have been ruined by the misconduct of others, and by the measures of the Government; and, after paying their creditors in full, under a commission of Bankruptcy, have retired to live upon the wreck of their property. Every man who issues promissory notes payable on demand, is compelled to take out a Banker's Licence. Manufacturers and shopkeepers have often been placed in the Bankrupt-list as Bankers, who were merely issuers of notes to pay the wages of workmen. The issuing of notes may be for no other purpose than paying wages, and may be wholly subsidiary to the financial operations of a person who is in a course of ruin from carrying on some declining manufacture. When such an individual becomes insolvent, he will be

apt, for many reasons, to choose to appear in the Gazette under the term of "Banker." A man who is both a tailor and a woollen-draper will be gazetted as a woollen-draper, although none of his losses may have arisen in that branch of his traffic. Looking to his future credit, he will avoid being described by that term which would be most prejudicial to his future pursuits. A man who is both a licensed Banker and a manufacturer, may, after his bankruptcy, again become a manufacturer; but he never can again become a banker. In the little town of Trowbridge, there were, at one time, ten firms that issued promissory notes, and their Bankers' Licences would cause them to appear in the list of Country-Bankers, in Directories and Parliamentary returns; but there never were, at the most, (properly speaking,) more than two Banks in that place. The practice of issuing notes, by miners and traders, was, a few years ago, rapidly extending itself in Cornwall: it became inconvenient and injurious to the Bankers, and full of risk to the public. The respectable Bankers of Truro, consequently, determined to put a stop to this practice, and they effected it by this means. They sent a man on horseback, into the obscure recesses of the hills, and into the villages, daily, to different places where these notes were issued, and demanded gold for such as they held. At first, the issuers endeavoured to evade

the demand, and tendered other notes, or other paper, in discharge for them. "No—I demand gold," said the applicant. "Then, you will take "your own notes, which have been issued by your "own employers?" "No—I demand gold. Send our "notes to the Bank where they are issued, and they "shall be paid in gold; but I will not take them "in exchange for your notes." This plan rendered the practice difficult, and the trade unprofitable; and it was soon relinquished. If it had not been eradicated in this manner, there might, in a few years, have been dozens of licensed note-issuers, who, in the event of failure, would have appeared in the Gazette as Bankers.

We have not alluded to these facts, for the purpose of palliating the conduct of the speculative Bankers of former days; for the only palliation which that admits of, is the novelty and peculiar character of the business of a Banker, the want of experience in those who sanguinely and credulously scattered their funds amongst the people, and the exciting circumstances of the war and the financial proceedings of the Minister: neither do we urge, by way of extenuation, that, even in almost all the worst cases of recent failure, the broken Bankers have paid much larger dividends than broken merchants or manufacturers in the same stations of life; because the banker who issues notes, invites, not

only the trust of his connexions and acquaintances, but, also, the confidence of people who are strangers to his person, circumstances, and habits; and he ought, therefore, to be visited with severer censure when he fails in his engagements: but we make the statement to shew the necessity of caution in adopting conclusions drawn from such erroneous data.

In this Section, an attempt has been made to prove—

1st. That the assumptions of the Government and the Parliament of 1826, concerning Country-Bankers, were almost entirely groundless; that the measures founded upon those assumptions flowed from the most reprehensible ignorance of their functions and conduct.

2d. That the preference given to the Scotch system of Banking, over that of the Country-Bankers, as affording a better support to industry, arises from the grossest misconceptions relating to the English practice.

3d. That a similar preference, on account of the Scotch Banks offering greater inducements to the frugal to save money by allowing depositors of savings a higher interest, is an error of the same kind.

4th. That, proceeding from these errors concerning the functions of the English Bankers, to their practices, it is shewn that the specific charges of their misconduct are, in the main, false; first, as regards their affording encouragement to "a rash spirit of speculation," and, secondly, as concerns their liability to fail, and the losses which the public have encountered from their failures.

A deliberate and mature investigation of the case, conducted by men of sense and impartiality, would make manifest, not alone the unimportant blemishes in the system of Country-Banking; but would exhibit a system which is, on the whole, more sound and perfect in its constitution, more convenient and useful in its operation, and more conducive to national wealth, than any other system, of extensive influence and operation, which has been any where introduced into the commercial affairs and industrious pursuits of any country.

That any man entrusted with the power and influence of the King's Prime Minister should, upon vulgar allegations and vague assumptions, meditate the extinction of such a system, without an investigation into its nature and operation, is unaccountable and marvellous. The English Country-Banks

are the means by which the industry of the country has been brought forth, developed, and extended; and they now form its main support. There is hardly a man distinguished for success in his pursuits, at a distance from London, who has not been guided in his course by the advice of a Country-Banker, and aided by him in his struggling efforts for wealth and independence. The Banker has been his counsellor in enterprise, his supporter in difficulty, his sympathising friend in depression. The Country-Banker and the man of industry are, therefore, knit together by the closest relations of social intercourse. In the present condition of the people of England, to interfere with a system out of which these relations have grown is to disturb the foundations of society. Mr. Owen has been considered a visionary, for attempting to transfer the impulses, the duties, and the habits, subsisting between parent and child, to the management of a general agency into which feeling and sympathy cannot enter. Let any man who is convinced that this was a senseless project, deliberately inquire whether Lord Liverpool's dream of extinguishing Country-Banks were not of precisely the same character; and he may find that the only difference is, that the project of the Minister applied—not to the natural affections, but—to a *system by which the industry of the country has been fostered, encouraged, and supported.*

SECTION III.

ON THE BRANCH-BANKS OF ENGLAND.

In proceeding to the consideration of this third division of our subject, it will be necessary again to make reference to the letter and communication of the First Lord of the Treasury and the Chancellor of the Exchequer, to the Bank of England; because the prevalent notions relating to the defects in the present system and practice of Country-Banking, are therein embodied and sanctioned by the highest authority; and because that authority has given them an influence in Public Opinion, which a full and impartial examination of the subject, it is believed, will not justify. That communication from the Lords of the Treasury affords a curious, and it ought to be an instructive, proof of the lamentable insufficiency of the information which his Majesty's Ministers had acquired, when they proceeded to enforce by their authority, and to encourage by legislation, new systems of business, in this vital department of Commercial Economy. The existing evils appeared to the Ministers so great, that there wanted nothing but the

formation of Branch-Banks and Joint-Stock Banks, to show the pressing necessities of the community for such establishments. So urgent and overwhelming appeared to these Statesmen the exigency, that it was deemed impossible for the Bank to establish Branch-Banks with sufficient promptitude to meet the demand :—" it would be impossible for " the Bank," says Lord Liverpool, " under present " circumstances, to carry into execution such a " system, to the extent necessary for providing for " the wants of the country." After inserting the document entire, as the fountain of the existing policy, and of the prevalent opinions, on this important subject, we shall proceed to try by the test of experience the soundness and validity of the measures proposed by the Government.

" TO THE GOVERNOR AND DEPUTY-GOVERNOR OF THE BANK OF ENGLAND.

" *Fife-House*, 13*th Jan.* 1826.

" GENTLEMEN,

" We have the honour of transmitting to you herewith, a paper containing our views upon the present state of the banking system of this country, with our suggestions thereupon, which we request you will lay before the Court of Directors of the Bank of England, for their consideration.

" We have, &c.

(Signed) " LIVERPOOL,

" FRED. JOHN ROBINSON.

" 1. The panic in the money market having subsided, and the

pecuniary transactions of the country having reverted to their accustomed course, it becomes important to lose no time in considering whether any measures can be adopted, to prevent the recurrence, in future, of such evils as we have recently experienced.

" 2. However much the recent distress may have been aggravated, in the judgment of some, by incidental circumstances and particular measures, there can be no doubt that the principal source of it is to be found in the rash spirit of speculation, which has pervaded the country for some time, supported, fostered, and encouraged, by the country banks.

" 3. The remedy, therefore, for this evil, in future, must be found in an improvement in the circulation of country paper; and the first measure which has suggested itself, to most of those who have considered the subject, is a recurrence to gold circulation throughout the country, as well as in the metropolis and its neighbourhood, by a repeal of the act which permits country bankers to issue one and two pound notes, until the year 1833; and by the immediate enactment of a prohibition of any such issues at the expiration of two or three years from the present period.

" 4. It appears to us to be quite clear, that such a measure would be productive of much good; that it would operate as some check upon the spirit of speculation, and upon the issues of country banks; and whilst, on the one hand, it would diminish the pressure upon the Bank and the metropolis, incident to an unfavourable state of the exchanges, by spreading it over a wider surface; on the other hand, it would cause such pressure to be earlier felt, and thereby insure an earlier and more general adoption of the precautionary measures necessary for counteracting the inconvenience incident to an export of the precious metals. But though a recurrence to a gold circulation in the country, for the reasons already stated, might be productive of some good, it would by no means go to the root of the evil.

" 5. We have abundant proof of the truth of this position, in

the events which took place in the spring of 1793, when a convulsion occurred in the money transactions and circulation of the country, more extensive than that which we have recently experienced. At that period, nearly a hundred country banks were obliged to stop payment, and Parliament was induced to grant an issue of exchequer-bills to relieve the distress. Yet in the year 1793 there were no one or two pound notes in circulation in England, either by country banks or by the Bank of England.

" 6. We have a further proof of what has been advanced, in the experience of Scotland, which has escaped all the convulsions which have occurred in the money-market of England for the last thirty-five years; though Scotland, during the whole of that time, has had a circulation of one pound notes, and the small pecuniary transactions of that part of the United Kingdom have been carried on exclusively by the means of such notes.

" 7. The issue of small notes, though it be an aggravation, cannot, therefore, be the sole or even the main cause of the evil in England.

" 8. The failures which have occurred in England, unaccompanied as they have been by the same occurrence in Scotland, tend to prove that there must have been an unsolid and delusive system of banking in one part of Great Britain, and a solid and substantial one in the other.

" 9. It would be entirely at variance with our deliberate opinion, not to do full justice to the Bank of England, as the great centre of circulation and commercial credit.

" 10. We believe that much of the prosperity of the country, for the last century, is to be ascribed to the general wisdom, justice, and fairness of the dealings of the Bank of England: and we further think, that during a great part of that time, it may have been in itself, and by itself, fully equal to all the important duties and operations confided to it. But the progress of the country, during the last thirty or forty years, in every branch of industry, in agriculture, manufactures, commerce, and navigation, has been so rapid and extensive, as to make it no reflection

on the Bank of England to say, that the instrument, which by itself was fully adequate to former transactions, is no longer sufficient, without new aids, to meet the demands of the present times.

" 11. We have to a considerable degree, the proof of this position in the very establishment of so many country banks.

" 12. Within the memory of many living, and even of some of those now engaged in public affairs, there were no country banks, except in a few of the great commercial towns.

" 13. The money transactions of the country were carried on by the supplies of coin and bank notes from London.

" 14. The extent of the business of the country, and the improvement made from time to time, in the mode of conducting our increased commercial transactions, founded on pecuniary credit, rendered such a system no longer adequate, and country banks must have arisen, as, in fact, they did arise, from the increased wealth and new wants of the country.

" 15. The matter of regret is, not that country banks have been suffered to exist, but that they have been suffered so long to exist without control or limitation, or without the adoption of provisions calculated to counteract the evils resulting from their improvidence or excess.

" 16. It would be vain to suppose that we could now, by any act of the legislature, extinguish the existing country banks, even if it were desirable; but it may be within our power, gradually at least, to establish a sound system of banking throughout the country; and if such a system can be formed, there can be little doubt that it would ultimately extinguish and absorb all that is objectionable and dangerous in the present banking establishments.

" 17. There appear to be two modes of obtaining this object:

First.—That the Bank of England should establish branches of its own body in different parts of the country.

Secondly.—That the Bank of England should give up its exclusive privileges to the number of partners engaged in banking, except within a certain distance of the metropolis.

" 18. It has always appeared to us, that it would have been very desirable that the Bank should have tried the first of these plans;—that of establishing Branch Banks upon a limited scale. But we are not insensible to the difficulties that would have attended such an experiment, and we are quite satisfied that it would be impossible for the Bank, under present circumstances, to carry into execution such a system, to the extent necessary for providing for the wants of the country.

" 19. There remains, therefore, only the other plan; the surrender by the Bank of their exclusive privilege as to the number of partners, beyond a certain distance from the metropolis.

" 20. The effect of such a measure would be the gradual establishment of extensive and respectable banks in different parts of the country; some, perhaps, with charters from the crown, under certain qualifications, and some without.

" 21. Here we have again the advantage of the experience of Scotland.

" 22. In England there are said to be between 800 and 900 country banks; and it is no exaggeration to suppose, that a great proportion of them have not been conducted with a due attention to those precautions which are necessary for the safety of all banking establishments, even where their property is most ample. When such bankers stop, their creditors may ultimately be paid the whole of their demands; but the delay and shock to credit may, in the mean time, involve them in the same difficulty, and is always attended with the greatest injury and suffering, in the districts where such stoppages occur. If this be the case where the solidity of the bank is unquestionable, what must it be where (as too often happens) they rest on no solid foundation.

" 23. In Scotland there are not more than thirty banks; and these banks have stood firm, amidst all the convulsions in the money-market in England, and amidst all the distresses to which all the manufacturing and agricultural interests in Scotland, as well as in England, have occasionally been subject.

" 24. Banks of this description must necessarily be conducted upon the general understood and approved principles of banking.

" 25. Individuals are, from the nature of the institutions, precluded from speculating in the manner in which persons engaged in this country, and even in London banks, speculate in England.

" 26. If the concerns of the country could be carried on without any other bank than the Bank of England, there might be some reason for not interfering with the exclusive privilege; but the effect of the law at present is, to permit every description of banking, *except* that which is *solid* and *secure*.

" 27. Let the Bank of England reflect on the dangers to which it has been recently subject, and let its directors and proprietors then say, whether, for their own interests, such an improvement as is suggested in the banking system is not desirable, and even necessary.

" 28. The Bank of England may perhaps propose, as they did upon a former occasion, the extension of the term of their exclusive privilege, as to the metropolis and its neighbourhood, beyond the year 1833, as the price of this concession.

" 29. It would be very much to be regretted that they should require any such condition.

" 30. It is clear that, in point of security, they would gain by the concession proposed to them, inasmuch as their own safety is now necessarily endangered by all such convulsions in the country circulation as we have lately and formerly witnessed.

" 31. In point of profit, would they lose anything by it, for which they are entitled to demand compensation?

" 32. It is notorious that at the present time their notes circulate in no part of England beyond the metropolis and its neighbourhood, except in Lancashire; and perhaps for that district some special provisions might be made.

" 33. But as it is the interest, so it has been and ever will be the endeavour, of the country bankers, to keep the Bank of England notes out of circulation in those parts of the kingdom where

their own circulation prevails. In this they must always be successful, while public credit continues in its ordinary state, and the exchanges not unfavourable to this country. The consequences are, that in such times the Bank of England becomes, in a manner, the sole depositary for gold; and in times of an opposite tendency, the sole resort for obtaining it: that at one period, their legitimate profit is curtailed by an accumulation of treasure beyond what would be required by a due attention to their own private safety as a banking establishment; and at another period, they are exposed to demands which endanger that safety, and baffle all the ordinary calculations of foresight and prudence.

" 34. If, then, the Bank of England has no country circulation, except in the county above named, the only question for them to consider, is, whether, on the ground of profit, as well as security to themselves, the existing country circulation shall or shall not be improved.

" 35. With respect to the extension of the term of their (Bank of England) exclusive privileges in the metropolis and the neighbourhood, it is obvious, from what passed before, that parliament will never agree to it.

" 36. Such privileges are out of fashion; and what expectation can the Bank, under present circumstances, entertain, that theirs will be renewed? But there is no reason why the Bank of England should look at this consequence with dismay. They will remain a chartered corporation for carrying on the business of banking. In that character they will, we trust, always continue to be the sole bankers of the state; and with these advantages, so long as they conduct their affairs wisely and prudently, they always must be the great centre of banking and circulation.

" 37. Theirs is the only establishment at which the dividends due to the public creditor can by law be paid.

" 38. It is to be hoped, therefore, that the Bank of England will make no difficulty in giving up their exclusive privileges, in respect to the number of partners engaged in banking, as to any district miles from the metropolis.

" 39. Should the Bank be disposed to consent to a measure of this nature, in time to enable the Government to announce such a concession at the opening of parliament, it would afford great facilities to the arrangements which they may have to propose for insuring the stability of private credit, in which the support of public credit, and the maintenance of public prosperity, are so materially and closely involved."

Six years have elapsed since the First Lord of the Treasury and the Chancellor of the Exchequer wrote, in this manner, to the Governor and Deputy-Governor of the Bank; and grounded upon these views a recommendation to the Directors, to establish Branch-Banks at different towns in the country. After enforcing that recommendation at various conferences, it was adopted by the Board of Directors, and Eleven Branches were, successively, opened; one at each of the following places —viz. Swansea, Gloucester, Birmingham, Manchester, Bristol, Liverpool, Leeds, Exeter, Newcastle, Hull, and Norwich. The experiment has now been a sufficient number of years in operation, to render manifest (if the anticipations respecting it were well founded) the wisdom of the recommendation, and the utility of the measure. The grounds of the recommendation for this remarkable departure from the practice of the Bank of England —this extraordinary inroad upon the interests of the existing Bankers, by a privileged, monopolizing,

Corporation,—were, the defective character of Country-Banks, their insecurity, and the insufficient accommodation which they rendered to the public. These grounds were, without proof, assumed as valid and indisputable; and it was concluded that Branch-Banks of England, or other Joint-Stock Banks, were required by so pressing and exigent a necessity, that no doubt could be entertained of their commanding the decided, and almost exclusive, preference of the public, wherever they were formed. Then, how stands the fact after an experience of six years? Is the accommodation of the Branch-Banks of England proved, as was assumed, to be so much better than that of the old establishments? Is their superior fitness to the wants of the public so manifest that the public desert the Country-Banks, and flock to those of the Bank of England? Have the Banks which were existing when the measure was enforced been closed, for want of stability, or want of profitable business? We can have no means of solving these questions, by a reference to the actual records of the transactions of the several Banks; but the outward and visible signs afford, as we think, demonstrative evidence to justify the conclusions at which we have arrived, and which are diametrically opposite to those formed by Lords Liverpool and Goderich six years ago.

When a Bank is formed, it is, as a matter of

course, upon a calculation that its accommodations will be sought by the population dwelling within fourteen or fifteen miles of it: this, indeed, is a narrow limit. Now, taking that radius as the extent of the influence of the several Branch-Banks, it will be found that the Bank-Directors have, by these establishments, proferred their alleged superior accommodations, to a population exceeding two millions of souls. The field of experiment is, therefore, sufficiently extensive; and, with one or two exceptions, selection has been made of those places where more capital is employed in production, and a more active spirit of enterprize and industry prevails, than in any other parts of the country, of equal extent. Then, what, upon a broad and general estimate, is the result? Looking at this Branch-Bank system as a system undertaken by the wealthiest National Bank in the world—at the temptation which it offers to the public, of performing business at lower charges,—and at the desirable secresy of its operations,—the custom at the Branch-Banks is insignificantly small. The means are not afforded us, of making any satisfactory comparison between the amount of the business of the Branch-Banks, and that of their rivals: no Private Banks are placed in circumstances which admit of an exact comparison with the Branch-Banks. There are, however, three firms which carry on very

extensive Banking operations in the country as Country-Bankers, the affairs of which mainly centre in London, under the management of the same firms, or of members of the same firms: with these, therefore, a comparison may be fairly made. Now, no man, capable of forming the least rational estimate on the subject, would be bold enough to say that the amount of legitimate banking business transacted by the eleven Branch-Banks, in the year 1831, exceeded the amount of the returns of either Messrs. Jones, Loyd, and Co., Messrs. Smith, Payne, and Smith, or Messrs. Gurneys and Co. Different members of these firms conduct business in the country, as well as in London; and, taking into account the transactions at the several Banks in which they are partners, we believe that the collective amount of payments made, annually, by their several Banks, far exceeds the gross amount of the payments made for proper banking business by all the eleven Branch-Banks of England. This is the first striking proof, of a presumptive character, of the utter misconception of the nature of the case dealt with in such an inconsiderate manner by the Government, during Lord Liverpool's Administration. If the business performed by the whole of the Branch-Banks amounted to the sum of the gross returns of these three eminent firms, *at the*

same rates of charge upon all transactions, it would be no proof of the urgency of the public want of the new system. That such a result as we witness should be the consequence, after an experience of several years, is a tolerable proof that no change was wanted. Another such proof — perhaps, more satisfactory than this, because it is actually numerical,—may be found in the fact, that, taking the whole of these eleven places into account, the number of clerks employed by the Bankers carrying on business in competition with the Branch-Banks of England, at the present time, considerably exceeds the number of clerks employed by the rivals of these establishments at the time they commenced their operations five and six years ago. We are compelled to speak in this collective sense, because changes have taken place—some Banks have been discontinued, and some new Banks have been opened,—within the last six years; but this general conclusive fact is indisputable—viz. that the number of clerks employed by the rivals of the Branch-Banks has been increased during the competition; and it would, alone, be almost sufficient to decide the judgement of an impartial inquirer, respecting the alleged advantages of the Branch-Bank system over others—it is manifest from this fact, that the public have not experienced the "defects," or they

would have deserted the established Banks, and hastened to obtain the proferred advantages.

This evidence is, from the nature of the subject, necessarily, in some degree, of a presumptive character; but it is sufficient to carry a conviction of the utter groundlessness of the allegations of the Earl of Liverpool and Lord Goderich, of a want of confidence, generally, in the public, towards the Banks, and a want of power and stability in the Bankers; upon which allegations the measures of establishing Branch-Banks and Joint-Stock Banks were enforced. But there is negative, as well as positive, evidence of the fallacy and absurdity of the opinions which formed the basis of the proceedings for altering the Banking system of of England. Those Statesmen say, that, " if such " a system" (contemplating the establishment of Branch-Banks of England, or Joint-Stock Banks) " can be formed, there can be little doubt, that it " would, ultimately, extinguish and absorb all " that is objectionable and dangerous in the present " Banking establishments." Then, let us examine the operation of this principle of *extinguishment* and *absorption*. At Exeter, Messrs. Floud and Co. have failed since the Branch-Bank was opened in that city. At the time of their failure, the amount of their issue of notes was under £1500, and the whole amount of the debts of the Bank was under

£5000. At Birmingham, Messrs. Galton and Co., persons of great wealth, have relinquished business. It would be erroneous to attribute the "extinguishment" of these, to the influence of the Branch-Banks; but, if we did so, it would be no very striking proof of the unsoundness of the system, and the urgent necessity of prompt measures for its subversion. That two Banks, only, out of upwards of sixty Banks, carrying on business amidst an active and enterprising population exceeding two millions of people, should be thus closed in a term of six years—those years being remarkable for extreme pressure on the customers of Country-Banks—is a proof of their great general stability, and of the necessity of upholding their efficiency for the benefit of the community. These two instances of Banks being closed cannot be cited as any evidences whatever, against the Country-Bank system, nor in favour of that of the Branch-Banks, because the relinquishment of business was owing, almost wholly, to other causes than the competition of the Bank of England; and because the old system is, numerically, compensated for their withdrawal, by the establishment of two new Private Banks, each having a number of Partners not exceeding four, at places where Branch-Banks had been formed. That two Private Banks should have sprung up since those establishments from the

Bank of England began their operations, would indicate, not the unfitness, but the superior fitness and peculiar adaptation, of such Private Banks, to the wants of the public. These facts are sufficient to shew the force of the "*extinguishing*" influence of the Bank of England.

Then, respecting the principle of "absorption," which must mean the blending of the existing Banking-firms into Joint-Stock Banks of extensive proprietaries, a few words will render manifest the extent of its power and operation. This can, fortunately, be done by a reference to obvious facts,—a mode of illustration which is seldom available in conducting inquiries respecting this, the most hidden and inaccessible (with respect to the details of practice) of all subjects connected with commercial economy. The extensive Private Banking firm of Messrs. Stuckey & Co., of Langport, has been enlarged, and now consists of ten or twelve co-partners. But, as those gentlemen who have been introduced into it are relations of the principals of the Bank, "Stuckey's Banking Company" can hardly, in fairness, be taken as an example in point. It is altogether a family concern; and not a Proprietary-Bank, the shares of which can be sold in the market. Mr. Joseph Gibbins opened a Private Bank in Birmingham about five years since, and that has been converted into

a Joint-Stock Bank. The small Bank of Messrs. Prideaux and Hinxton, of Plymouth, has also been extended into one of a numerous proprietary. The Bank of Messrs. Hordern & Co., of Wolverhampton, has been transformed into a Joint-Stock Bank. This Share-Bank, and that at Birmingham raised upon the foundation of Mr. Gibbins's Bank, issue no promissory notes, payable on demand, but those of the Bank of England. The Private Bank of Messrs. Smiths and Ridsdale, at Oundle, has been discontinued ; and Mr. Ridsdale is the manager of a Joint-Stock Bank, which was raised principally by his exertions.

We have now enumerated all the Country-Banks that have been converted into Joint-Stock Banks ; and, we ask, if four, or, at the most, five, Private Banks being thus converted into Banks of numerous proprietaries, can be admitted as any proof of the correctness of the opinion concerning the character of the existing Banks, entertained by the Government of Lord Liverpool ? The Act of the 4th of Geo IV., cap. 46, has now been in operation six years : the necessity for passing it was alleged to be the urgent want of a better system of Banking. " If such a system," says Lord Liverpool, " can be formed, there can be " little doubt that it would, ultimately, extinguish " and absorb all that is objectionable and dan-

" gerous in the present Banking establishments." We believe it may, with perfect safety, be affirmed, that not one of the above-named Joint-Stock Banks arose out of the principle here laid down—viz. the insufficiency, and objectionable character, of the present establishments;—but all arose from a desire in speculative individuals, to make profit out of the mania for Joint-Stock Banks, which Lord Liverpool had mainly contributed to create. The immediate impulses for forming them were—expected gain from a traffic in Shares, a wish to possess the salaries of the Managers, and a desire to participate in the power and influence of a Director of a Bank.

We have now stated the effects of the principles of " extinguishment" and " absorption," which the operation of the Act, during a period of six years, has developed. We shall, presently, show the numerical progress that Joint-Stock Banks have made in England:—besides the Birmingham Banking Company, and that of Messrs. Stuckey, only three have been opened at places selected for Branch-Banks of England; while, notwithstanding the inducements held out to the people, the towns of Exeter, Swansea, Gloucester, Leeds, Newcastle, and Hull, remain, to testify to the public satisfaction with Banks as they existed when the Government denounced them. With the foregoing

unimportant exceptions (of the petty Bank of Messrs. Floud & Co. of Exeter, from insolvency, and that of the opulent Messrs. Galtons, of Birmingham, from private considerations,) every Country-Bank is now existing at the places selected for Branch-Banks of England, that did exist when those establishments were formed.

Such is the result of this great experiment in Banking, as it is exhibited by a few years of competition with the old establishments which were considered so "objectionable and dangerous." There cannot, we believe, be adduced a similar instance of any measure connected with an essential part of our internal policy being succeeded by so complete and unredeeming a failure. There never was a measure, commenced with headlong confidence and inconsiderate precipitation, so soon succeeded by such signal and unequivocal demonstrations of the folly and ignorance in which it originated. But, if its operation were attended by none but these negative evidences of its policy, the Branch-Bank system might remain to waste the treasure of Bank-Stock Proprietors, in expensive establishments which yield no profitable returns in business. This, however, is far from being the case; and we proceed to offer a few observations on this part of the subject.

Traders of extensive traffic, who are most con-

cerned with credit-obligations, and who require discounts and Banking facilities for some transitory speculation, are the class of persons out of which the borrowing customers of a Branch-Bank chiefly arise. They are very seldom resorted to by those persons engaged in productive industry, who have most need of Banking accommodations, for paying the wages of labourers, and carrying on the processes of manufacture. All writers, and all intelligent witnesses who have been summoned to give evidence before Parliamentary Committees, have concurred in attesting to the beneficial results of the Cash-Credit system of Scotland; and, with such exceptions as will be hereafter explained, it is, we think, impossible to estimate too highly the salutary effects of that system upon productive industry. Now, nothing can be more hostile, than the principles of business and the practice of the Branch-Banks of England are, to this vital and most essential property of all Banking systems connected with creative industry. The practice of the Bank of England may be very well suited to the Metropolis, where almost all traffic is confined to interchanges of commodities not undergoing any manufacturing process; but it can never be adapted to an industrious population, where one of the essential properties of the Banking system is, the collecting of money-capital into

masses, from the overflowing sources of inert accumulators, to be again broken-down, and lent out, in minute portions, to the industrious. This, indeed, is a system which requires the daily, unremitting, anxious, care of the principal, who is to lose, or gain, by the traffic,—personal and and local knowledge, at once comprehensive, accurate, and minute. The man engaged in it must be thoroughly acquainted with the ever-changing currents, and altering circumstances, of every kind of trade; and be employed in ascertaining the state of the habits, circumstances, and connexions, of every man, being a borrowing customer of a Bank, who is entering into, continuing upon, or going off, the field of industry in his vicinity. This part of a Country-Banker's business is of that peculiar and delicate nature which can never be successfully conducted by a deputy; it must be directed and superintended by a man who is personally interested in the risks and profits attending it. We bespeak particular attention to this point, which is a most essential one; and it was altogether overlooked by the Ministers and Bank-Directors in 1826. Some illustration of a more practical nature, relating to it, will be subsequently offered. It appeared, however, to be necessary in this place, to enforce, emphatically, the principle which arises from the

circumstances of the Banker being a broker of capital, and being, in that character, responsible for the principal-money and accruing interest to the accumulator: that responsibility, which affects the entire property of a Private Banker, must render him vigilant, circumspect, and skilful, in the application of the capital entrusted to him. *This is the important, fundamental, principle, which, as far as that is concerned, renders the Private Banks superior to Joint-Stock Banks, as well as to Branch-Banks of England.* Its operation cannot be too much investigated and considered. For the present, however, as the Branch-Banks neither take in deposits of money on interest, nor lend money out on cash-credits; and as it is manifest to all well acquainted with the principles of Banking, that, if the Directors adopted this practice, its free and extensive exercise would be attended with ruinous consequences to the Bank; it is unnecessary now to dwell upon the important points of Banking practice, that would grow out of it in the operation of the Branch-Bank system. We will, therefore, proceed to inquire whether the existence and competition of Branch-Banks tend, in any manner, to obstruct and injure the salutary operation, in the hands of other Bankers, of this vital principle of all good Country-Banking systems.

The charge formerly made by Country-Bankers, for loans to the public, was, with very unimportant variations in the practice, at the rate of five pounds per centum per annum: in some parts of England, an additional charge for commission was made, of five shillings, for every sum of one hundred pounds returned in the account of the borrowing customers; this latter charge was, in some districts, made only upon the sum borrowed. There existed no regulation absolutely fixed and uniform, except that of five per cent. per annum, for the interest on loans: all other charges varied according to the risks encountered and the customary profits of Bankers: those who derived profit from the circulation of their own promissory notes, rarely made any charge beyond five per cent. for the interest on the sum advanced to the borrower. When the Bank of England established its Branches, the Directors fixed one uniform rate of charge, which was four per centum per annum, for discounting bills at not exceeding ninety days' date—the only mode of making loans to the public which they put into regular practice. This tended to fix a *maximum* upon Banking profits, and to obstruct and counteract the working of that principle of banking operations, viz. varying charges for different degrees of risk. When we reflect, that it is by the operation of that principle that the struggling man,

of limited means and good character, who can command more labour than capital, obtains the power of paying his workmen until the products raised by him become marketable, we shall, at once, see the injurious tendency of such an interference. Bankers cannot vary their rates of profit, like market-jobbers; and, by Branch-Banks of England fixing the rate at four per cent., their rivals were compelled, either to lower theirs to the same standard, and cut off the supplies to all their customers where loans were attended with any portion of risk, or to continue their former charge of five per cent., and drive their wealthiest customers to the Branch-Banks. It produced both these effects, at different places; and it operated in one direction, or the other, according to the circumstances and connexions of competing Bankers. An interest of five per cent., increased by commission-charges, afforded the Bankers such a profit as justified them in making loans to other classes than those composed of wealthy capitalists; and that upon the slenderest security—often upon the mere confidence in the solvency, integrity, and ability, of an apparently thriving borrower. This source of relief under pressure, and of aid under exertion, was of the greatest importance to small industrious manufacturers and traders; and it received injury from the competition of Branch-Banks. At a time when

this source of supply for the industrious required additional fulness and vigour, it was contracted and enfeebled by the effects resulting from that competition.

These effects were produced in two ways: first, in obstructing and lessening the supply of money which was customarily flowing into the Private Banks; and, secondly, in destroying that extra-profit fund whose influence and operation, being in the nature of an assurance against risks, justified the Bankers in making advances in obscure and minute channels of production and interchange. In respect to the former, it is well known that the supplies of a Bank are derived from various sources; but, speaking of Country-Banks, they are all comprised in the following—viz. 1st, the capital paid-up, severally, by the co-partners; 2d, the circulation of promissory notes; 3d, the circulation of bills-of-exchange; 4th, the balances of current accounts; and, 5th, the permanent deposits on interest or otherwise. Of these, the two last-named are by far the most important; and it may suffice for the present occasion, to treat them as forming one and the same fund, although their properties are different, and they furnish the Bankers with assets available only for distinct and different purposes. The deposit-fund, whether arising from balances in current accounts, or from permanent deposits on loan, is that

fund the varying amount of which indicates, in a great degree, the measure of accommodation which it is in the power of a Bank to afford to the industrious in its vicinity. Anything, therefore, that injures this fund, damages one of the most essential springs of public prosperity. When it is considered that a Banker's deposits are composed of sums brought by individuals of every profession and pursuit, it will not be difficult to imagine the consequences to the Private Banker and the public, when all the timid who shrink from responsibility—all trustees, who consider themselves, *ex officio*, prohibited from encountering risk,—all government-officers,—all assignees of insolvent or embarrassed estates,—and many public Companies,—will feel themselves bound to take the funds placed in their hands for investment, or for ulterior and deferred purposes, to the Branch-Banks of England, instead of to Private Banks as heretofore. In this manner, there is great danger lest the Branch-Banks should, in the course of time, "extinguish and absorb" a great portion of that supply which is most valuable to the Private Banking Establishments, and most useful to the public. It will be an extinguishment and absorption of one of the best and most essential sources of aid to industry.

This statement, which is necessarily somewhat hypothetical, might be more fully established by evidence before a Committee competent to investi-

gate the matter. It would be then clearly seen that the tendency of the establishment of Bank-of-England Branches is, to divert capital from the channels of industry in the country, to those of speculation in London, Paris, Hamburgh, or Vienna. Let us take a practical illustration of the effects of this influence.—The Bank of Ireland formerly corresponded with Messrs. A. Heywood and Son, of Liverpool, as their English Bankers in that part of the country; and, of course, they kept, constantly, a balance corresponding to the nature of the account. This balance would (for example) be naturally employed by Messrs. Heywood, in discounting the bill of some Bolton cotton-spinner who came to purchase cotton; or it would be lent to a responsible grocer, for an undefined period, to pay for the duties upon sugar or coffee. It would be employed in some channel connected with production or consumption in England. The Bank of Ireland has now removed this account to the Branch-Bank of England at Liverpool; and, as the Bolton spinner has no account with this Bank, and the grocer cannot borrow upon a cash-credit, which the Bank of England does not grant, the money is diverted from its useful application in the country, and is sent to London to be employed in discounting the bills of Mr. Rothschild, drawn by Mr. Aguado of Paris, or Mr. Geymüller of Vienna.

Enterprising foreigners resorting to our markets, to purchase manufactures, who are unacquainted with the respectability and stability of our Private Bankers, will be apt to lodge their money, during the time that elapses between their arrival in this country and the delivery of the goods for payment, in Branches of the Bank of England. They will prefer the absolute security of a National Bank, with the temporary loss of interest on capital, to encountering the smallest risk by opening a current account with a Private Banker. In some instances, the money for such purchases lies many months before the orders to the manufacturers can be completed, and payment required.

Again, all money-capital sent by strangers to any part of England at a distance from London, for the purpose of being invested in some permanent security, will, at first, be committed to the custody of a Branch-Bank, in preference to that of a Country-Bank. It is said that, when Charles the Tenth arrived in England with his treasure, it was immediately deposited with Messrs. Coutts; but this resulted from the eminence of that firm and its undoubted responsibility being familiarly known throughout the circles of society in which the King had moved in all the vicissitudes of his life.

As the evil of Branch-Banks is mainly felt in the channels of industry, let us take another ex-

ample of the diversion of capital: a man may have accumulated property, in a life of enterprise and risk in a distant climate, or by speculation in one of the capitals of Europe; and be about to return to his native country. He will, in all likelihood, remit the proceeds, by instalments, to some confidential friend or relative, preparatory to making one investment with the bulk of his property, on arriving himself in England: or they may be remitted for immediate investment, on some security already provided. Such delays in completing the affair may take place, as are incidental to business of this nature, especially when the parties in the negociation are separated by great distance. In such cases, if temporary deposits of cash, pending their ultimate application, were made with a Private Bank, they would be useful to the public, and would be rendered available for production. Now, on the contrary, a person consigning property from abroad, would be induced, in changeful times, to prescribe in his letters accompanying his remittances, that the money should be temporarily placed in a Branch-Bank of England, instead of in a Country-Bank. Whereas, if no such establishments as Branch-Banks existed, the consignee, living, perhaps, in a remote county, having no account with the Bank of England and but little intercourse with London, would, undoubtedly, for

his own convenience. and to have it under his immediate control, place it in some stable Country-Bank. It seems unnecessary to illustrate this tendency of the working of the new system, by example. But, suppose a man in Calcutta, with the disastrous failure of Palmer and Co. in his view,—in Lisbon, where all is treachery, suspicion, bankruptcy, and distrust,—in Paris, with the wreck of Lafitte's fortune to affright his contemplation;—such a man would, undoubtedly, in making a remittance to his brother in Norfolk or Northumberland, direct the money to be paid into a Branch-Bank of England. This brother might be a clergyman, a yeoman, a schoolmaster, or some person unaccustomed to travel far beyond his own county, and not very conversant with pecuniary concerns. He would, from habit and long-established confidence, be as well satisfied with the security of Messrs. Gurneys and Co., or Messrs. Ridley and Co., as with that of the Bank of England; and the money would, as a matter of course, pass through their medium into the channels of production, if the Bank-of-England Branch-Banks were not placed as a barrier to arrest its course.

The aggregate of the deposits constitutes the main fund by which the Country-Banker is enabled to relieve and invigorate the springs of industry: a regulated portion, only, of that fund is kept un-

employed, ready to answer immediate demands. Such diversions of capital from Banks essentially connected with creative industry, into a channel which is not, and never can be permanently, connected with the productive portion of the community, must ultimately produce most injurious consequences. Nor is the point of mere security that which constitutes the most important and essential consideration, connected with this question of the relative degree of public usefulness of different depositaries of money-capital. We have before stated, that the charge of insecurity appertaining to the Private Banks was mainly ascribable to the novelty of the business of a Country-Banker, to the absence of the valuable lessons of experience in the earliest stages of its exercise, and to the injurious measures of the Government. This position has been conclusively established by the stability evinced by the great body of these Bankers during the last six years, when the extraordinary pressure upon all interests has broken many of the wealthiest and most eminent merchants of former times. We believe the risk of failures amongst Country-Bankers, to be, now, small and insignificant; and to be an item, which, in balancing the comparative utility of different systems of Banking, is extremely unimportant. The material point for consideration is —whether the community will be best served by

agents who administer capital to the uses of industry in the best manner, although accompanied with some risk; or by agents, with whom there is no risk of the principal, but who will withdraw the capital requisite for the support of industry in the most important channels of production, for the purpose of applying it to speculative objects, hostile to the real interests of the country. It is a question—whether it be wise to apply legislation to the providing of means for the protection of the capital of inert accumulators, at the risk of depriving the sources of production of their replenishing and invigorating powers.

This tendency to divert capital from its most beneficial uses, pertains to the essential, inseparable, properties of the Branch-Bank system. It is not pretended that the influence of the changes in Banking, introduced under the authority of Lord Liverpool, is yet general throughout England; but the establishment of Branch-Banks is one of the causes of the resources of industry in the country being lessened and dried up, and, from their most obscure and remote channels of usefulness, altogether withdrawn. Merchants, manufacturers, traders, and even farmers and graziers on a large scale, have still the power of borrowing temporary loans from Country-Bankers; but the fructifying influence of capital administered in small portions, in aid of

humble industry, where the chief security rests, not upon the property, but the character, of the borrower, is altogether destroyed; and the establishment of Branch-Banks, by locking-up floating and unfixed money-capital, which forms a material part of the available funds of a Country-Bank applicable for loans in the shape of cash-credits to the industrious, must be placed among the co-operating causes of this injurious effect.

Nothing more is wanting to show the pernicious tendency of Branch-Banks to obstruct the flowing of those floating sums of money, in their course to the long-established and well-known reservoirs of capital. Sums of money that form, in great part, the funds for the temporary uses of the industrious, which the Country-Bankers are accustomed to administer so beneficially for the public, and so advantageously to themselves, are forced into channels unconnected with production in England; and their application is altogether extraneous and mischievous to the British community.

Then, with respect to the next point—the fixing of an unnatural *maximum* upon banking charges, by a powerful, monopolizing, corporation,—this has, with regard to the humble, thrifty, and industrious, borrower, virtually the effect of applying the condemned principle of the usury-laws, to exclude him from the advantage of obtaining tem-

porary loans, on easy terms. Commercial men who seek the accommodations of the Branch-Banks, are, usually, interchangers—men who deal in commodities, without altering their shape and substance. Manufacturers, however, upon a great scale, also seek them. One of these, who may employ a thousand workmen, will have no difficulty in obtaining discount for a bill at ninety days' date, however it may have been concocted, and whatever be its character. But a thrifty competitor of the overgrown manufacturer—a man who employs half-a-dozen sons, and twenty or thirty labourers; and who can pay back a sum borrowed, not when a ninety days' bill arrives at maturity, but when the product of his manufacture, to perfect which he borrowed a portion of his money-capital from a neighbouring Bank, becomes marketable;—has no power to borrow of a Branch-Bank. This distinction between the influence of the Branch-Banks of England, and that of the Country-Banks, is very remarkable and important; and it is altogether unknown or disregarded by public men: but it shows itself unequivocally in practice to those who are acquainted with the silent and unobserved operations of Banking. In Birmingham, where the great mass of productions is raised from the innumerable separate exertions of little traders and manufacturers, four parts out of five of the money

applied to the uses of industry by the Bankers, are lent at the rate of five per cent. per annum, for the interest: while, in Manchester, the reverse of this is the case; and four parts out of five of the money so lent, are at a rate of interest not exceeding the Bank-of-England rate of four per cent. In Manchester, the class of lesser manufacturers and traders is greatly diminished, and almost annihilated: in Birmingham, no material progress is yet made in breaking down this class. The tendency of the Branch-Bank system, to raise-up an exclusive class of monopolizing manufacturers, is, in both cases, the same; technical and particular circumstances connected with the respective manufactures make the difference in its progress in regard to Manchester and Birmingham.

From this sketch, it would appear that Branch-Banks can never supply the place of Country-Banks to the productive classes of the community—

1st. Because experience has proved that the reasons which appeared to impel Lord Liverpool and the Bank-Directors to project those establishments, were fallacious assumptions, unsupported by facts:

2d. Because, as Branch-Banks allow no interest upon deposits, they counteract the great principle of economical thrift, which

is best promoted by easy means for obtaining interest on accumulations;—a principle which never can meet with encouragement from Branch-Banks, because no Banks can allow interest for money, that have not channels open for its application, of the nature of cash-credits,—the flowing-in must be kept pretty equally balanced by the flowing-out; and this is an operation which never can be conducted, either with safety to the Bank or advantage to the public, by the delegated authority of Branch-Bank Managers:

3d. Because, loans being made only at a rate of interest not exceeding four per cent., and that by discounting bills, a sort of *maximum* is placed upon the profits of Bankers, detrimental to the interests of small manufacturers, traders, and farmers, who are, consequently, in great measure, excluded from their former advantages of borrowing temporary loans of money on easy terms:

4th. Because the presence and operation of Branch-Banks is injurious to the Private Bankers and the public, inasmuch

as their tendency is, on the one hand, to divert capital from those depositaries, the Private Banks, which are the well-known local fountains of capital for the industrious; and, on the other hand, to raise-up a class of speculative traders and manufacturers, by offering loans of money on long bills, to the deep injury and eventual annihilation of the class of small manufacturers and traders, who cannot have recourse to the same means of obtaining accommodation.

SECTION IV.

ON THE SCOTCH SYSTEM OF BANKING, AND ITS ALLEGED SUPERIOR ADAPTABILITY TO THE WANTS OF THE PEOPLE OF ENGLAND.

On proceeding to enter upon this fourth division of our subject, it is obvious that it will not be necessary to allude to the two "great leading features" of alleged superiority: we have proved that the Country-Banking system does afford equal facilities with the Scotch system, for the deposit, on interest, of the earnings and accumulations of the frugal, and for the obtaining of cash-credits by the industrious. Nothing but the pernicious interference of the Government can render the exercise of these functions less efficient and useful to the community in England, than they are in Scotland, where no such interference has been hazarded. The only remaining point to be discussed, therefore, is, whether the Scotch system of Banking—by which we understand to be meant Banks founded upon extended Joint-Stock Proprietaries—be, or be not, more secure; and, if they be more

secure, whether they be, or be not, for that reason, more beneficial to the public.

There can be no hesitation in admitting at once, that either Chartered Banks with a large paid-up capital, or Joint-Stock Companies consisting of many hundreds of persons of property, all, jointly and severally, responsible for debts, are more secure against failure, than private co-partnerships consisting of three or four persons: that, in regard merely to constitution and formation, apart from all considerations of management, Banks so formed are more safe depositaries for capital, than Private Banks. This obvious and undeniable truth has been sufficient, with all Parliamentary declaimers and all writers who have advocated the introduction of the Scotch system (as they ignorantly term it) into England, to decide the whole question. Men, however, who presume to legislate on such grave and important matters, should reflect, whether there are not countervailing considerations connected with this naked question of security against failure, which render it a question of doubtful issue.

All failures in the performance of pecuniary obligations are to be deprecated. It would be a precipitous and unwise proceeding, however, to legislate for the prevention of their recurrence amongst Bankers, without first examining in what manner

the failures of different classes of traders affect the community. We are so apt to be carried away by the constant use of axioms abstractedly true, that, when plausible men proceed, under their sanction, to introduce changes pregnant with momentous consequences, we assent too readily to their propositions. This has been fearfully verified in all recent measures relating to Banks and paper-currency. Failures, in all promises to pay—in all undertakings to refund sums of money placed in a man's hands, on the faith of punctual performance,—are bad; and failures from insolvency are the worst of all. But, why? An attempt to explain the reason may, perhaps, lead us to a more correct appreciation of the evil arising from the failure of Banks.

A failure in restoring money-capital, which has been lent to aid the important processes of production and interchange, interferes with the just appropriation of capital; and, by destroying confidence, it damages that principle which gives floating money-capital its chief value in commerce—viz. free circulation in all channels of production. It obstructs, therefore, the just and salutary employment of the accumulations of industry, and suspends, or damages, the processes of reproduction. A Banker is entrusted with capital of great value, because he is a professional agent for the application of capital in all the pursuits of industrious

and active life; and, therefore, when a Bank fails, the mischief is extensive.

Failures, whether of Bankers or of other persons, are immediately detrimental, because of their partial destruction of capital which has been misapplied and wasted; and very pernicious in their progressive consequences, because of the disturbance which they produce in the future application of capital, to the uses of industry. If these effects are produced equally by the injurious working of a system of Banking which *provides, at all hazards, for the stability of the Banks*, and by the operations of insolvent Banks, the bad consequences to the community are, in either case, the same. This, we apprehend, is a fair statement of the problem; and if a Government were dealing with the case of a country in which no Banks had been formed, they would be altogether guided by the solution to be given to it. Then, it appears that the true question for a Statesman to consider is, whether the Scotch system of Banking cause more, or less, frequent and abrupt destruction of capital, than the English, and more, or less, injurious disturbance in the processes of production.

On entering upon so wide a field of inquiry, we find that the actual facts which would enable us to form a correct judgement are, from the nature of the subject, hidden from our view, and inaccessi-

ble ; and that our conclusions must, consequently, be deduced, in a great measure, from evidence derived from general knowledge, and the testimony of competent witnesses. There can be no dispute respecting the obvious truth, that fewer failures have occurred in the practice of the Scotch system of Banking, than in that of the English : and that is a matter which deeply affects the inert accumulators of capital, who deposit money in Banks ; but it does not so immediately concern the industrious creators of capital, who borrow money from Banks, for the purpose of reproduction. Security for the former class is frequently obtained, in Scotland, by the destruction of the latter class. Whenever difficulties arise, and alarm seizes the minds of the Directors of Scotch Banks, cash-credits are contracted or closed ; and money is called in, with as much unforbearing harshness and promptitude as by an Exchequer-process. It is the exercise of this tremendous power over the fortunes and welfare of individuals, which has engendered that feeling of apprehension of, and servility towards, the Bankers, which, in its degree, is utterly unknown in England. A Board of Directors will act with the unrelenting promptitude of one who administers a judicial execution, in cases where a Private Banker would expostulate and advise, and resort to temporary expedients to prevent the ruin of debtors.

The money advanced on cash-credits is considered by the Banks, to be secure; and, even when lent to men in precarious circumstances, it is so, generally, to those Banks that issue the first process for its recovery. Almost all considerable traders, in Scotland, have several cash-credits open at one and the same time; and so generally does the operation of the system pervade all kinds of traffic, that it may be said, almost without exception, that all traders, and most farmers, are connected as debtors, either in their own persons or as bondsmen for their friends, with several Banks at once: consequently, there prevails the strongest motive for prompt and harsh measures, on the part of the Bankers. There is no example in England, of such extensive destruction produced amongst the productive and distributive classes of the community, as has frequently been produced in Scotland. It is fifty-nine years since the famous Ayr Bank failed in Scotland. If that Bank had been carrying on business at this day, half the people of the surrounding country would have been broken up, but the Bank would have remained firm. The debtors would have been ruined on the remotest approach of danger to the creditors. The Dukes of Buccleuch and Queensbury, with Mr. Douglas as their leading partner, were novices in the art and mystery of Banking; or they would have had no

misgivings with regard to securing themselves and their depositing customers, at the expense of their debtors. " When the Banking Company, under " the Firm of Douglas, Heron, and Co., of Ayr," says Macpherson, " resolved to discontinue their " business, they found it would be impossible to " call in their funds immediately, without spread- " ing great and general distress throughout the " country; and, therefore, they had recourse to " other methods for discharging the demands upon " them." These other methods for discharging the demands upon them, consisted partly in borrowing money, " but chiefly by the sum of £450,000, " arising from the sale of annuities for one or two " lives." There is a general federative spirit that now actuates the conduct of all the Banks throughout Scotland, which sustains any particular Bank that may be placed in jeopardy, until it recover its power; which, in ordinary cases, will promptly be accomplished, by demanding the sums lent on cash-credit to be paid up, and thus ruining the weaker portion of its debtors. The Stirling Bank, although, as a Bank, insolvent to the amount of £100,000, was sustained in this manner, in the year 1826, pending the inquiry in Parliament relating to the Banking system of Scotland. The skilful managers of that inquiry knew how injurious would be the effect of a failure of a Scotch Bank

at such a juncture. This Bank subsequently failed, " spreading great and general distress throughout " the country," and bringing ruin upon many persons associated as co-partners in its affairs.

Lord Lauderdale and Mr. Huskisson both declared that the distress in the Spring of 1826, succeeding the Panic in the money-market, was, beyond all description, more intense and long-continued in Abroath, Montrose, and Dundee, than in any part of England. In Abroath and Montrose, more than four-fifths of the manufacturers were either ruined altogether, or compelled to stop payment and suspend their works ; and this was produced principally by the unmitigated rigour with which loans upon cash-credits were drawn in by the Joint-Stock Banks. More mischief, in the destruction and disturbance of capital, resulted from the conduct of the Scotch Banks at the period referred to, than could have been produced by the failure of a Private Bank, conducted on the English system, at every town from Stirling to Aberdeen.

In our observations in the foregoing Section " on " the alleged defects of the present System of " Banking in England," we have shown that speculation is " supported, fostered, and encouraged," infinitely more, under the Scotch Banking System, than under that of the Country-Bankers of England.

The great competition—the unbroken reliance which all the Bankers feel, of never being incommoded by runs,—the deceptive security of bonds to cover advances,—and the abundance of money on deposit, —induce them to encounter risks, by dealing with speculative people. This has been abundantly proved since the Panic of 1825–6. During the period which has elapsed since its termination, viz. from Midsummer 1826 to May 1832, the failures of merchants and manufacturers in England were unusually few. There were none that could be put into comparison with the failures in Glasgow, resulting from speculations in the East-Indian and South-American trades,—those of the great cattle- and corn-dealers,—and those in the cloth-trade, at Gallow-Shiels. The amount of debt owing in the last-cited case was small, compared with that in the other cases; but it was, notwithstanding, a very instructive instance of the effects of the Scotch system of Banking. The cloth-trade in Gallow-Shiels was a recently-introduced manufacture; it had risen with rapidity, under the fostering influence of the Banks which had been opened there to encourage it. There were about eighty distinct clothing establishments existing, when the Banks suddenly contracted their accommodation upon cash-credits. These were secured by reciprocal bonds, which linked almost the whole manufacturing community in one "joint

" and several" money-obligation. Consequently, when the first demand was made for the repayment of an advance, it affected all who were so bound together; and more than sixty, out of eighty, establishments were stopped at one time. No disaster, in the remotest degree approaching this, in severity and comparative extent, has occurred at any manufacturing town in England, during the same period.

These facts prove that security against failure may be obtained by Banks, at a great sacrifice. We could prove in evidence, that English manufacturers, who send travellers to all the market-towns in England and Scotland, lay on a higher profit for risk from bad debts in Scotland, than they do upon their sales in England. This arises solely from their experience of the greater hazard attending their dealings in Scotland, which they attribute to the operation of the Banking system of that country. All judicious writers, acquainted with this matter, confirm this view of the subject. Even Mr. Macculloch, with the strongest prejudices against the Country-Bank system of England, bears his testimony, in a work recently published, in favour of that view which we have endeavoured to explain:

. . . . . " A banking system," he says, " fitted only for a period of prosperity, and unable " to sustain itself, and to assist the country, in

" times of distress and difficulty, is as ill calculated " for the great purposes it should serve, as the " paper cannons of the Chinese for being used " in war.

" The example of the Scotch Bankers may here " be referred to. They are most liberal of their " advances so long as they consider they run no " risk in making them ; but that moment that alarm " and discredit begin to make their appearance, " they demand payment of every advance that is " not made on the very best security ; they cease " in a great measure to discount ; and provide for " their own security by ruining thousands of their " customers. Had the Bank of England acted, in " 1792, 1815, and 1816, and in 1825 and 1826, " as the Scotch Banks act when they apprehend a " return of their notes, all classes would have been " involved in bankruptcy, and we should have been " fortunate had we escaped a revolution !

" Similar results are said to be exhibited in the " State of Massachusets, the banking system of " which has received some encomiums in this " country. We learn, from the best authority, " that in Massachusets the oscillations in the quan- " tity of paper afloat are very sudden and violent, " and have been productive of most injurious con- " sequences."

These admissions of the defective operation of

the Scotch system of Banking are very curious; and, as they proceed from a distinguished Scotch Economist, are of great importance as a means of dissipating the prejudices of the uninformed. That system which causes the Bankers, the " moment " that alarm and discredit *begin* to make their ap- " pearance, to demand payment of every advance " that is not made on the very best security, and " to cease, in a great measure, to discount, and " provide for their own security by ruining thou- " sands of their customers," must be a most delusive and dangerous system for the community. We defy any person to adduce a single instance throughout England, where alarm in the Bankers for their own safety, or even the failure of a Bank, has ruined—not thousands, as Mr. Macculloch says in the case of the Scotch Bankers,—not even hundreds;—but, we defy any one to prove that scores of the customers of any English Country-Bank have been ruined by the alarm or the failure of the Bank.

There is another important characteristic of the English system of Banking, which gives it a decided superiority over that of Scotland, for all borrowers, and, therefore, for the productive classes of the community: and that is the power of prompt and immediate decision in special and critical cases. Banks managed by persons whose character and entire property are involved in its success, are

able to make advances, on the instant, upon the judgement of one or two partners in a Bank, without the risk of that annoyance and injury to the borrower, which is attendant on the Scotch system; where many individuals, meeting at public boards, scrutinize, judge, and decide, the case referred to them. The operation of the principle will be best illustrated by example: the facts in the following cases could be proved in evidence:—

The first case that we shall adduce, is one on a contracted range of operation; but it is, nevertheless, forcibly illustrative of the beneficial influence of English Bankers, when the circumstances connected with it are considered. It is commonly known that Chester, Wrexham, Shrewsbury, Bristol, and Exeter, are each a description of emporium for the manufactured goods and commodities consumed in the more inaccessible districts of which they are the marts and centres of interchange. Formerly, the inhabitants of these more inaccessible districts were in the habit of purchasing their stores for domestic consumption, at their great fairs in the Spring and Fall of the year, which, like those on a large scale at Frankfort and Leipsic, were established, in great measure, for this specific purpose. Even at this day, that former practice has a great influence upon demand; which, at these places, is periodical—occurring at wider intervals than at

other large towns; and not equable, regular, and of daily or weekly recurrence, as at places not so situated. A purchaser for this sort of demand was lately at Manchester, to lay in supplies,—where his credit was unquestioned, his purchases and payments regular, and where he was esteemed a welcome customer by all the manufacturers,—when a circumstance occurred, that, at once, destroyed his favourable position in the Manchester-Market. His brother—a person living in the same town, and carrying on a business similar to his own,—failed under circumstances which deeply injured his moral reputation. The effect of this upon the credit of the stable and respectable brother, who was totally unconnected in business with the bankrupt, was such that he found it utterly impracticable to buy the accustomed supply of goods, in the usual manner, on credit. He promptly determined to return home: and, after consulting with his partners, the case was submitted to their friend and counsellor, the Country-Banker, who was able and willing to render assistance to his customers, in all cases of emergency where prudence and liberal confidence directed. The Banker was convinced of the stability, and of the existing prosperity, of the firm: the money was, forthwith, advanced to enable the purchaser to buy his goods, with cash, instead of with credit: he returned, immediately, to Man-

chester; and obtained the requisite supply of goods, without losing the chance of his periodical market. The delay of a week, or even of a day, might have damaged his business, for this year; and permanently and irreparably injured it.

Now, this is a case with which no Joint-Stock Bank could have dealt in the same satisfactory manner. A compliance with such an application, would have broken some established rule: the Board of Directors alone, who might not meet for nearly a week, could decide upon it: there might be rivals in the same trade as that of the applicants, sitting at the Board of Directors, or in their special confidence. In short, the relief could not have been sought from a Joint-Stock Bank: and, if it had been possible to seek relief, it must, nevertheless, have failed to prove efficacious to the applicants, and beneficial to their credit. They were, by the nature of the case, compelled to make such an exposure of the state of their affairs, as could be done to no other than one in the character of a private confidential friend.

The next case to which we shall allude, is one of a bolder character; in which great confidence, prompt decision, and clear judgement, in the Banker, were required in no ordinary degree. A Merchant, at one of our principal manufacturing towns, had his property locked up in Foreign mar-

kets, during a period of extraordinary stagnation. No sum less than twenty thousand pounds would relieve him from embarrassment, and prevent him from stopping payment. He determined to ask his Banker to advance that amount. The Banker bestowed due examination and consideration upon the nature of the affairs of his customer, and upon his general responsibility; and, after convincing himself of the prudence of the proceeding—bold as it was,—he supplied the required amount. The event justified his confidence. He was moved to adopt this course, by other considerations than those which were, exclusively, connected with the personal convenience and prosperity of his customer. The district was, at the time, suffering under a depressed state of trade: the failure of the Merchant, at that juncture, would have greatly aggravated the general distress; and the eventual loss of property to the district, over and above the damage and inconvenience resulting from a public acknowledgement of embarrassment by the Merchant, would have been very large. Nothing is better established than this fact—viz. that, when an English exporter of goods fails, a great proportion of all his property lying at distant Foreign markets is, immediately, confiscated, by means of fraud, to the use of the consignees. We know an instance where a merchant failed, who had goods lying at one market in

South America, equal to the value of Twenty-Eight Thousand Pounds. If he had not failed, Twenty-Five Thousand at the least, and, probably, the whole of this sum, would have been received. Nothing was, however, ever recovered by the creditors: it was not only a total loss; but heavy expenses were defrayed, in addition to the principal sum, for persons sent out to enforce demands by legal process. In the above-recited case of the Merchant who obtained the seasonable aid of Twenty Thousand Pounds, from his Banker—a Country-Banker,—a sum, amounting, probably, to a Hundred Thousand Pounds, was received by the small manufacturers in one district of England, which, but for such aid, would have been for ever lost to the people of England.

In this case, as in the former, what could a Joint-Stock Bank have done? It could have rendered no assistance which would have been effectual—none, indeed, which would have been of the least service to the Merchant and the district in which he carried on business. There would have been the operation of the same machinery of Boards—open consultations—rivalship—confidential disclosures and secrets whispered from one to another;—in short, the ruin of the Merchant must, in the end, have been the consequence of such an application to a Joint-Stock Bank. These cases may be sufficient

to show that there are many considerations connected with a change of system, which demand attention, besides the question of security against the failure of the Bank.

There are, moreover, other consequences to be apprehended from the general introduction of Joint-Stock Banks into countries out of Scotland, " besides the sudden and violent oscillations in the quantity of paper afloat :" and, though they may be such as do not greatly affect the principle of higher security, which is the sole recommendation of Banks formed on the basis of extended proprietaries ; yet, as they exhibit the greater danger attendant on the delegated management of public funds, than on the management of the resources of a Private Bank by its co-partners, we bring them into view.

Since our Banking changes were commenced in the year 1826, upwards of a hundred of the Joint-Stock Banks and their branches, in the United States, have declared their insolvency, or their incapability of paying their engagements in cash. Some make compositions with their creditors, by means of the property placed in their hands by the public, and transfer titles to land-sections, and other property : some pay a per-centage upon their debts, in the notes of other Banks, and get a discharge in full. It was from the experience of the

evil resulting from forced and extended credit—which is the aliment of life, to the Scotch system of Banking,—that Judge Catron of Nashville recommended the Legislature to pass a law "*exempting any one from being bound as security for another, in any case, by word, bond, note, or endorsement.*" If this system should prosper in other countries, it would require unexampled circumspection to prevent the issues of the Banks being forced to excess. The Bank of the United States, which is a National Share-Bank, like our Banks of England and Scotland, with branches in all parts of the Union, narrowly escaped being ruined and disgraced by failure from this cause. Three gentlemen who were Directors or Managers of that department of this great National Bank, which is carried on at Baltimore,—named Macculloch, Smith, & Buchanan,—contrived to advance to themselves, from the funds of the Bank, a very large sum of money. The amount was so large, that, after the parties had repaid all that they could when the advance was called in, the deficiency, which they could never pay, amounted to *Three Millions of Dollars.*

These circumstances serve to shew that the introduction of Joint-Stock Banks into other countries, may not be attended with the same results as they have latterly produced in Scotland. Experi-

ence demonstrates that the catastrophe which closed the East Lothian Bank—the Banks at Ayr, Stirling, Falkirk, and in the United States above referred to,—is more likely to be the issue of Share-Banks formed under the auspices of the Aristocracy, in England, than permanent advantage to the public, and profit to the responsible share-holders. Real knowledge of the actual state of the affairs of those which have been opened in England, during the last six years, would strengthen this anticipation. There are between four and five hundred Country-Banks in England: the magnitude of their transactions is, probably, more than twenty times greater than that of the whole of the newly-raised Joint-Stock Banks. Now, during this period of six years, there have not been, as far as we know, above two instances of Country-Banks having incurred bad debts exceeding eight thousand pounds in any one instance: while, even in this short period, when almost all distributors of money-capital have been increasingly circumspect, there are, we believe, four or five instances of Joint-Stock Banks, or Branch-Banks of England, having incurred bad debts amounting, in each instance, to a sum exceeding ten thousand pounds.

If these facts should be established in evidence, they would throw a strong light upon the operation of a principle contended for in a former part of this

essay; which principle is—that the knowledge, experience, vigilance, and deep personal interest, of a Private Banker, are requisite to enable a man to distribute money-capital, judiciously, amongst the industrious, — that the habits of a Branch-Bank or Joint-Stock Bank manager must prevent the Bank of England and Public Share-Banks (but especially the former), from exercising the function of Broker of Capital, beneficially for the Proprietors of the Bank, and satisfactorily for the Public. If it be true that nearly every instance of " a rash spirit of speculation" being fostered and encouraged in England, during the last six years, is to be found in the proceeding of the Branch-Banks and the Joint-Stock Banks, it shows the fallaciousness of Lord Liverpool's assumptions, and affords grave matter for the consideration of the existing Government. The present Ministers cannot, without mature deliberation, adopt measures for extending, perpetuating, and confirming, the new systems of Banking.

Examples of the early success of Joint-Stock Banks are often cited to promote the system. They are delusive; and, as proofs of superior utility, altogether unworthy of regard. The Provincial Bank of Ireland is the most stable of all the Joint-Stock Banks that have been formed since the Act of 1826 was passed. The highest interest

paid by this Bank, is four per cent. per annum, upon the capital advanced. It is, notwithstanding, managed with more skill, and is intrinsically more prosperous, than any Joint-Stock Bank raised upon a new foundation. Yet the shares of some of the latter sell at a premium of 100 per cent. upon the sum paid up; while those of the Provincial Bank have, generally, been either at a small discount, or at par. These premiums are, in all cases, the effect of other causes than profit, or even of anticipated profit: and, as great stress is laid upon this circumstance in all recommendations for an extension and general adoption of the system, it is necessary to expose the delusion. We have no doubt that shares in Joint-Stock Banks have been sold at large premiums, which would not, intrinsically, be worth three quarters of the sum which they have cost, if they could be estimated by the actual balance of profit and loss, after all the debts owing to and by the Bank had been discharged. The delusion which causes the premiums is compounded, partly, of that gross kind which influences the gamblers in shares on the Stock-Exchange, and, partly, of something of a more subtle quality, which requires to be explained.

The shares of the Joint-Stock Banks which are formed and conducted at Provincial Towns, at any time marketable, are few, compared with the whole

number into which the Bank is divided. Experience shews the public, that the possessor of shares has accommodations granted to him by the Bank, which cannot be obtained by a man who possesses no shares. The shares themselves are accepted as security for any loan from the Bank to the individual shareholder, at the market-value of the shares; and they give him a credit and an influence, beyond their value in the market. Suppose a man, trading with a deficient capital, to buy ten or twenty shares in a Bank, at a certain loss of one hundred pounds: that loss is a matter of no consequence, because the possession of the shares enables him to truck with a Director, for an advance of money from the Bank. "If you will use your influence to get me "a loan equal to double the cost of the shares, "the shares shall be held as security for it, and I "will vote to keep you in the Direction, and will "bring a score of my friends for the same pur-"pose." In the noted case at Baltimore above referred to, Messrs. Macculloch, Smith, and Buchanan, pledged shares at the market-value, for the advances made to them; yet, when the bubble burst, the Bank lost *Three Millions of Dollars* by the transactions. The traffic in credit and shares, now carried on at some of the Joint-Stock Banks which have been raised in England upon new foundations, is only an imitation, after the manner of

petty jobbers, of the conduct of these three ambitious and magnificent speculators at Baltimore.

After contemplating these facts, and reflecting on the disasters that attended the issue of St. Patrick's Marine Insurance-Company in Dublin, which caused scores of men of property to go into involuntary exile for life, to prevent being ruined by law-suits arising out of their liabilities for the debts of that insolvent Company,—on the failure of the Ayr Bank, which impoverished wealthy landowners for generations,—on that of the Stirling Bank, whose deficiencies must be supplied, altogether, by fewer than twenty nominal partners according to their respective shares, and, principally, by three or four of the wealthiest,—the Landowners of England will not inconsiderately give the sanction of their names, to encourage the extension of a system fraught with so much risk. It is impossible that any benefit can result to those who engage in such schemes, unless they can first "extinguish" all existing Private Bankers, that the ground may be cleared for their own operations.

On the function of the Scotch System of Banking providing "a safe, economical, circulating medium," it will not be necessary to dwell at any length. The writer in the Quarterly, before referred to, says "far from regarding this function as an

" excrescence, which might be lopped off, we " consider it as the hinge upon which the whole " system turns." We are quite ready to subscribe to this opinion of the great convenience and importance of the circulation of promissory notes, to the Scotch Bankers; it is the hinge without which their machinery would be obstructed and move with difficulty. But, excepting in the single point of security, upon which we have made as full an admission as could, in fairness, be demanded, the circulating medium provided by the Scotch Banks is an instrument of less efficient utility than that provided by the English Bankers, because it is under less circumspect and discreet management; and it is not a whit more necessary to Scotch Banks, than the same kind of circulation is to the Country-Bankers of England. In both cases, it is found to be extremely beneficial to the public. There is no point of advantage which the Scotch possess over the English, in the routine management of their circulation. The English make their exchanges of notes, as frequently; they watch the circulation of one another, as circumspectly; and they are as much disposed, and as able, to check extravagant issues, with promptitude and effect. The single point of security to the holder of notes—if it should be considered a matter of that importance

which does not actually belong to it—might easily be guarded and set right, by the simplest regulation.

There is only one other point necessary to be introduced here; and rather by way of allusion, as a consideration that deeply concerns the Government, than as an argument in a practical view of the subject: it is, however, an important matter of principle, which demands the most serious and deliberate attention of the legislature, in making permanent regulations for the government of our circulating medium.

This difficult and intricate subject has hitherto been approached by Ministers, with such extremely narrow views concerning its practical operation, that they have regarded only the single point of security: this they have seen conspicuously, but not clearly and perfectly. They have thought only of security for the Bankers and their depositors, neglecting altogether the more important consideration of security for the industrious customers of Banks. With that point, alone, in their contemplation, they have been led by the statements of plausible philosophers and the delusive exhibitions of Scottish prosperity, into errors almost fatal, and measures almost irreparable.

Ever since the principles for governing the issues and circulation of paper-money began to be dealt

with by philosophers, and the means of regulating them formed an object of legislation, it passed as an undisputed axiom amongst economists, that liability to pay, on demand, promissory notes, in legal metallic currency, was an effectual preventive of excessive issues: and to this doctrine the Scotch Bankers have attempted to append another, which, as well as the former, is sanctioned by the high authority of Dr. Smith,—viz. that the frequent and regular exchange of notes, amongst all the Bankers of Scotland, is a perfect bar against over-issue in any one Bank, and, collectively, in all the Banks of the country. Experience has now cast the first of these doctrines, to the winds,—no man, since the year 1825, would be so absurd as to bring it forward: the latter is contradicted by common sense, and the practice of the Scotch Bankers. For the purpose of supplying the defect of the inoperative property of ready convertibility into cash, Lord Liverpool had recourse to the notable plan of suppressing the circulation of small notes in England, leaving full scope for them to circulate in Scotland, where, from the nature of the Banking operations, the tendency to overflowing excess was indefinitely greater than in England: and his Lordship also meditated the suppression of the five-pound notes, if the extinction of the small notes failed to accomplish the purpose. He could not have stopped there, unless

such measures permanently repressed the commercial enterprise of England, deprived industry of its just remuneration, and kept the condition of the labourers near to the point of absolute want;—that is the only point at which a paper currency convertible, on demand, into gold, is, with our present laws and regulations, safe from over-issue.

Then, if convertibility into gold at the will of the holder be not an effectual check against excess, what are the circumstances in which such an effectual check will be found? This is a most important question to take into consideration, before the judgment of Parliament can be conducted to a satisfactory conclusion concerning the proposition of extending and perpetuating the Joint-Stock Banking system. All experience proves that that system is, and ever must be, conducted, in practice, upon principles incompatible with the principle of convertibility. If it be determined that payment in gold shall remain the fundamental basis of our circulation, it is impossible to imagine a greater absurdity than to attempt, at the same time, to establish and extend the influence of Joint-Stock Banks; for a constant, free, and perfectly unrestricted, exercise of the power of demanding cash whenever interest dictates, and the operations of the Scotch Banking system, are grounded upon antagonist principles. In a country abounding in paper-money currency,

cash payments can be upheld only by circumspection, caution,—knowledge of the general state of the circulation, of the exigencies of Governments, and the bearing of the Foreign Exchanges upon the general currency ;—and by these being skilfully exercised by the Government, or its agent the Bank of England. Now, all these principles for the regulation of a paper-money currency convertible into cash are, at all times, almost wholly inoperative with Joint-Stock Banks ; and the conduct of those Banks is determined by considerations and objects which are in direct opposition to such principles.

Notes issued by a Bank with a numerous and wealthy proprietary, have a general and unobstructed credit. Every one of its many proprietors is, in his circle of intercourse, actively engaged in promoting the exclusive credit of its notes, in order that the profits of which he partakes may be augmented, and that he may, over and above his Banking profits, reap those particular individual advantages which activity for the interest of the Bank commands. *Runs* upon such a Bank, when it has been firmly established, are not likely to occur, because every member of the surrounding community, who is a shareholder or a customer of the Stock-Bank, or a friend of either, is interested in preventing a demand for gold ; and a general understanding prevails, that it would be disgraceful

to cripple the Bank, by obstructing the circulation of its notes, or causing deposits to be withdrawn from it in gold. Each individual shareholder who chooses to busy himself with the concerns of the Stock-Bank, is a sanguine, ignorant, and comparatively irresponsible, Banker, engaged in promoting the success of his Bank. He feels that he may, himself, acquire some of the profits of suc cess; and he does not habitually feel himself amenable, either in his property or his character, for the consequences of indiscretion. A discreet Private Banker, on the contrary, whose whole property and income depend upon his prudence and circumspection, will vigilantly watch, and anxiously regulate, his issues; and when his notes are in the hands of the public, there is nobody engaged in promoting their circulation by the stimulus of a participation in the profit arising from it. With a very imperfect knowledge of those general circumstances—which we have above stated to be requisite in the Government or the Bank, as regulators of the circulating medium of the country,—the discreet Private Banker will be careful not to extend his circulation in a dangerous manner, because his property, his professional income, his character, and his station in life, are involved in the risks attending such a course. Let us briefly examine the effects of the principles here brought

into view, in their practical operation in the affairs of Joint-Stock Banks.

With respect to discount-transactions: — The custom most prevalent amongst English Country-Bankers is, and always has been, to discount bills at not exceeding about two months' date. Very few of them, as a rule of general practice, discount them at so long a date as three months, except in Lancashire; in that county, three months is established as the customary date at which bills are drawn, and at which they are circulated by the Bankers. The practice of discounting bills at long dates, by the English Bankers, was so little known, that an instance could, we believe, be proved in evidence, in which one of the newly-formed English Joint-Stock Banks, for the sake of increasing its profits, was induced to take active measures for prevailing upon the manufacturers of a particular district, to draw bills at three and four months' date, instead of at two months' date, and for inducing them to bring such bills to be discounted. This fact proves that the Country-Bankers carrying on business in the same part of England, had never given encouragement to similar transactions, or bills adapted to their purpose would have been ready prepared for the hands of the new Joint-Stock Managers. We believe no similar instance of the active interposition of any Country-Banker, for the pur-

pose of promoting circulation by discounting bills at long dates, could be found: and we request particular attention to it, because it forcibly illustrates the inevitable tendency of Joint-Stock Banks to stimulate speculation, and to induce excess in paper-currency. It is one of the fruits of the new system in England; and this brief allusion may be sufficient to indicate the different principles by which the discreet Private Bankers and the Joint-Banks are actuated in their dealings with the public.

While the leading motive of every discreet Private Banker must be, to conduct his business in such a manner as to secure his individual property from danger, the leading motive of every Joint-Stock Manager is, to increase the traffic and the profits of the Bank—*individual responsibility* not being the living principle of such Banks. The tempting means of increasing traffic, is an extension of accommodation in every channel of intercourse: hence, forced issues, extended discounts, and cash-credits on inferior security. The Stirling Bank had, at one time, a circulation of promissory notes in the northern counties of England, from one hundred to one hundred and fifty miles from the place where tney were issued and payable, the amount of which exceeded one hundred thousand pounds. This is only an example—an extreme

one—of the effects of the system. It is very well known that the Scotch Bankers have been in the practice of discounting bills at very long dates. Bills at four and six months' date have been common; and bills at twelve, eighteen, and twenty-four, months' date, though more extraordinary, are very well known in the discount-transactions of the Bankers of Scotland. Then, with respect to the same system in America;—we have seen a letter written at New York, in April 1832, by a person of great experience, to his friend in England, in which the writer attributes the stagnation in commerce, prevalent throughout the United States, to the reaction caused by the Banks having locked up their funds by discounting bills at twelve months' date.

All experience, consequently, proves that the system of Joint-Stock Banks cannot be brought into extensive operation in any country, without inducing an excessive circulation of paper, in a manner which has no parallel amongst Country-Bankers: and the circumstances here alluded to, as developed by the practice of that system, in Scotland, in the United States, and, lastly, in England, confirm the truth of our position; which is—that, inasmuch as the issues of a Joint-Stock Bank flow from a source not guarded by deep personal responsibility and interest, they are suffered to flow in abundance, — that their circulation is un-

obstructed, because the credit of the issuers is general, and the particular private interest of every active man in the vicinity of a Public Share Bank is engaged in promoting it,—and that imprudence is not visited by the same penalties, in a Joint-Stock Bank, as in a Private Banker, because every shareholder endeavours to make it esteemed disgraceful in a holder of notes to demand payment for them in gold.

The influence of the confederated union of a Joint-Stock Bank is astonishing:—every body is now acquainted with its force and operation in Scotland. The same effect has taken place in the United States. We have seen letters written by inhabitants of New York and Baltimore, in December 1831, to their fellow-countrymen then in London, at the time when the drain of silver for England was flowing strongly: in these letters, the writers stated the names of those merchants who had been induced by an expectation of gain, to demand silver from the Banks, for exportation to England; adding that they believed the transaction would not be repeated—first, because the profit would be less than had been anticipated, and, second, because the conduct of these shippers of silver had been universally reprobated as "meanly selfish and unpatriotic." The public is always disposed to stig-

matize those who demand payment from Joint-Stock Banks, when they begin to feel, in their private affairs, the consequences which always succeed a contraction of paper-money currency.

The interesting and important inferences to be deduced from such a development of facts as this sketch would indicate, are—first, that the extension of the Scotch system of Banking is incompatible with the existing principles upon which our paper-money currency is founded; and, secondly, that it must lead to convulsions in credit hitherto unknown to England, except in the instance of that of 1825, which was hardly, in the smallest degree, superinduced by the conduct of the Country-Bankers. The first of these may be best explained by the Governor of the Bank; the last is shown by the sudden ruin of whole classes of merchants in the commercial cities of North America, and by the present condition, as well as the recent commercial history, of Glasgow.

We submit these views of the principles and operation of Joint-Stock Banks, leaving it for those statesmen to reconcile their conduct, who, to give effect to their crude speculations, would, at all hazards, enforce payments in cash in a high standard of value, and, at the same time, promote a system of Banking, which, necessarily, leads to excessive paper circulation;—who would put two

diametrically opposite forces, both of great power, into operation, at one and the same time, to produce the same result.

From these premises, it would appear—

1st. That the Scotch or Joint-Stock system of Banking has no superiority over the Country-Bank system of England, in the two great functions of receiving deposits of money, on interest, from the frugal, and of granting loans to the industrious, in the manner of cash-credits, or otherwise:

2d. That the Scotch system of Banking is more secure in regard to failure of Banks, than the English;—that this quality of greater security operates mainly for the advantage of inert accumulators, and is obtained, in great measure, by means which are extremely prejudicial to the active creators and distributors of productions; and that it produces evils in society greater than can be compensated by the mere advantage of security against loss by the insolvency of Banks:

3d. That frequent and dangerous speculations, and indiscreet enterprises, are some of the fruits of the Scotch system of

Banking; and that this is proved by extensive failures in Scotland, since the effects of the great convulsion in credit of 1825–6 had subsided. It is also confirmed by the testimony of public men, which shows that the stimulating effects of the Scotch system, in prosperous times, are followed by ruin and distress, which, in intensity and duration, have no parallel in England:

4th. That the English system of Banking has the power of adapting itself to special and particular cases, in a manner very advantageous to borrowers; while the Scotch system of Banking has not that power:

5th. That the experiments made of the Scotch system of Banking, in the United States of America, and more recently in England and Ireland, prove that "its alleged superior adaptibility "to the wants of the people" must be altogether a delusion; and that landed proprietors cannot give their sanction to its extension, without great hazard to themselves:

6th. That the Scotch system of Banking is

founded upon principles, and is, in practice, subjected to regulations and influences, utterly incompatible with the principle of the convertibility of credit-currency into cash; and that it leads, in its operation, to commercial convulsions, such as are never produced by the practice of the Country-Bank system of England.

POSTSCRIPT.

There is one point of Banking practice not introduced into the body of the subject in the preceding pages, because, though a matter of importance, it did not appear to the writer a necessary and inseparable part of it.—In some parts of the country, the Branch-Banks have undertaken to collect and transmit the taxes to the King's Exchequer. In the performance of this duty, their agents visit, periodically, various towns, to collect the taxes, within a circuit surrounding the Branch-Bank. At several of these places, they have declared to the tax-gatherers and sub-collectors, that they would receive no notes but those of the Bank of England. In remote parts of the country, the notes of the Bank of England are hardly to be found; and the sole currency passing at

fairs and markets, for cattle, corn, hay, wool, cheese, hops, &c., is such as is provided by the Country Bankers—consisting of their notes, checks, bills, &c. Now an order proceeding from an agent of the Bank, who is in an obscure country town, in the character of an officer of the Government, has great influence and authority. An order not to receive such paper money as the people are accustomed to and satisfied with, spreads consternation: it proclaims that the common currency which is in almost exclusive circulation is unsound; and that the currency of the Bank of England, which the people scarcely ever see, and know little about, is, alone, held to be valid by the Government. The effect of an order of this kind, at a large fair for cattle, was, in one instance, such that four-parts out of five of the horses, sheep, and horned cattle, were, in a brisk state of demand, driven home unsold. The Bank of England had thrown discredit upon all the currency of the district, and thereby put a stop to the business of the fair.

No adequate impression could be given to any person unacquainted with country-business, of the effect of such interference as this. It destroys or damages the effectiveness of an indispensable instrument of barter, with which the people were,

before such interference, perfectly satisfied, without giving them any thing in its room. It is, undoubtedly, in the power of the Government, to order all tax-collectors and tax-receivers throughout the Kingdom, to receive nothing in payment for taxes, but the King's coin and Bank-of-England notes. But such an order never was given; and, if it had been given, the old receivers of the taxes would, with their knowledge of the custom of the country, have disregarded it: they would rather have taken upon themselves the responsibility of evading it, than have caused the disturbance which it is calculated to produce. The Branch-Bank agents, who know no more of the habits and feelings of the people than an Exchequer-messenger, obey the will of their masters, and create alarm and difficulty amongst the people: they have occasioned this alarm and embarrassment, in Devonshire, Somersetshire, and Yorkshire. Consequently, although this evil does not pertain integrally to the Branch-Bank system, it is a very mischievous and injurious consequence which has resulted from its operation.

THE END.

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